

NEW APPLICATION

ORIGINAL



0000098311

GUST ROSENFELD P.L.C.

201 E. Washington, Suite 800

Phoenix, AZ 85004-2327

Telephone: (602) 257-7990

Shiela B. Schmidt - 011970

Attorneys for Applicant Yarnell Water Improvement Association

RECEIVED

2009 MAY 22 P 4: 00

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF YARNELL WATER IMPROVEMENT
ASSOCIATION, AN ARIZONA NON-PROFIT
CORPORATION, FOR AUTHORITY (1) TO
ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$767,000.00
IN CONNECTION WITH (A) THE
CONSTRUCTION OF WATER SYSTEM
INFRASTRUCTURE IMPROVEMENTS AND
(B) REPAYMENT OF EXISTING DEBT; AND
(2) TO ENCUMBER ITS REAL PROPERTY
INTERESTS AND WATER SYSTEM
INFRASTRUCTURE AS SECURITY FOR
SUCH INDEBTEDNESS.

Docket No. W-02255A-09-0258

APPLICATION (FINANCING)

Arizona Corporation Commission

DOCKETED

MAY 22 2009

DOCKETED BY	nr
-------------	----

Pursuant to A.R.S. Sections 40-285, 40-301 and 40-302, Yarnell Water Improvement Association ("Yarnell" or the "Company"), an Arizona public service corporation, hereby applies for authority from the Arizona Corporation Commission ("Commission") to (1) issue evidence of indebtedness in an amount not to exceed \$767,000.00 on the terms and conditions set forth below, and (2) encumber its real property interests and water system infrastructure as security for such indebtedness. This debt will be incurred for the purpose of making improvements to the Company's existing water system infrastructure.

In support of this application, Yarnell states as follows:

A. General Background.

1. Yarnell is a public service corporation providing water service in an area

1 approximately 30 miles southwest of Prescott in Yavapai County, Arizona. Yarnell's
2 current rates and charges were authorized in Decision No. 70698 (January 20, 2009).

3 2. Yarnell's business office is located at 22609 Looka Way, Yarnell, Arizona
4 85362 and its mailing address is Post Office Box 727, Yarnell, Arizona 85362. Yarnell's
5 telephone number is (928) 427-3321 and its facsimile number is (928) 427-0243. The
6 Company's primary management contact is Tammy Zudell, the Company's Secretary.
7 Mrs. Zudell is also responsible for overseeing and directing the conduct of this
8 Application. Her telephone and facsimile numbers are (928) 427-3321 and (928) 427-
9 0243, respectively. Mrs. Zudell's email address is ywia@w3az.net. All discovery, data
10 requests, and other requests for information concerning the Application should be
11 directed to Mrs. Zudell, with a copy to counsel for the Company in this matter, Shiela B.
12 Schmidt (sschmidt@gustlaw.com).

13 3. In Decision 70698, the Commission approved an increase in operating
14 revenue for the Company because even though the Company operates as a non-profit
15 corporation, the Company had not had a revenue increase for 6 years and the increase in
16 operating revenue would enable the Company to pay the debt on two long-term loans
17 previously approved by the Commission along with the additional long-term debt for
18 which the Company was sought, and received, Commission approval in Decision 70698.
19 The approved increase to the Company's rates and charges in Decision 70698 became
20 effective for all services provided on and after February 1, 2009.

21 4. A copy of Decision 70698 is attached as Exhibit 1.

22 **B. Purposes of Financial Transaction.**

23 5. The purposes of the long-term debt financing for which the Company is
24 seeking approval herein is to pay for the cost of improvements to its existing water
25 system and to pay the balance of the existing debt that funded the original construction
26 of the water system in 1974 and 1975. The total estimated cost of the project, including

1 repayment of the Company's existing debt associated with original construction of the
2 system, is \$1,300,000.00. A detailed breakdown of the estimated cost of the water
3 system improvements is attached as Exhibit 2.

4 **C. Terms and Conditions of Financial Transaction.**

5 6. Yarnell applied to the United States Department of Agriculture, Rural
6 Development (USDA-RD), for financing for this project. Yarnell's application
7 requested assistance in the form of loan and grant requests and its application has been
8 approved. USDA-RD will administer the loan and grant on behalf of the Rural Utilities
9 Service (RUS). The source of the RUS funding for this project is the American
10 Recovery and Reinvestment Act of 2009 ("Recovery Act"). USDA-RD has notified the
11 Company that funds have been obligated for the Company's loan request of \$767,000.00
12 and the grant request of \$533,000.00. The loan amount of \$767,000.00 and the grant
13 amount of \$533,000.00 together total \$1,300,000.00 which is the estimated cost of the
14 project that includes both the water system improvements and the payment of the
15 existing debt associated with original construction of the water system. A copy of the
16 USDA-RD letter of conditions dated April 17, 2009 is attached as Exhibit 3 and the
17 approval of the loan and grant request is attached as Exhibit 4.

18 7. As set forth in the USDA-RD letter of conditions (Exhibit 3), the loan will be
19 scheduled for repayment over a period of 40 years. The payments due the first 2 years
20 will consist of interest only. Payments for the remaining 38 years will be equal
21 amortized monthly payments. The interest rate is 3.75% and the monthly amortization
22 factor is 4.12. The estimated monthly payment with principal and interest is \$3,161.00.

23 8. The loan is to be secured by a Deed of Trust having a first lien priority in some
24 or all of the Company's real property and its water plant and system.

25 9. The proposed closing for the project financing is June 30, 2009.

26 ///

1 **D. Effects of Financial Transaction.**

2 10. The final preliminary engineering report, as amended January 26, 2009,
3 and approved by USDA-RD (the "Engineering Report"), is attached as **Exhibit 5.** The
4 Engineering Report describes the project and improvements to be made to the
5 Company's water system with the proceeds of the loan and grant funding from the RUS
6 program and the Recovery Act.

7 11. The Company's balance sheet as of November 19, 2008 and the 2008
8 profit and loss statement are attached as **Exhibit 6.** The Company's projected operating
9 budget and cash flow for the periods 2009 and 2010 is attached as **Exhibit 7.** The
10 projected financial information reflects the impact of the financing transaction that is the
11 subject of this Application.

12 12. The loan and grant proceeds will be used for lawful purposes, and the
13 execution of the loan and grant documents with RUS and the grant of a security interest
14 in Yarnell's real property, plant and system, and the undertaking of the obligations set
15 forth therein are within the Company's corporate powers. A corporate resolution
16 authorizing the contemplated transaction will be filed as a late filed exhibit to this
17 Application.

18 13. The financial transaction contemplated herein is compatible with sound
19 financial practices. The loan and grant funding through the RUS program and the
20 Recovery Act will allow the Company to address limitations with its aging water
21 distribution system that utilizes outdated technology.

22 14. The approvals sought herein are compatible with the public interest and
23 with the proper performance of Yarnell's duties as a public service corporation. The
24 proceeds of the loan and grant will be utilized exclusively to pay the Company's existing
25 debt incurred for original construction of the water system and to pay for the
26 improvements to the water system as described in the Engineering Report attached as

1 **Exhibit 5.** No portion of the proceeds will be used to pay operating expenses. The
2 approvals sought herein are necessary to ensure the Company's ability to continue to
3 provide safe and reliable water utility service in compliance with all applicable laws and
4 regulations.

5 15. The financing contemplated herein will not impair the Company's ability
6 to perform its duties as a public service corporation providing water utility service.

7 **E. Loan Documents.**

8 16. The USDA-RD and RUS forms required as loan documents in the financial
9 transaction which is the subject of this Application are currently in process and once the
10 forms are completed and the Company has received instructions from USDA-RD, the
11 loan documents and instructions will be filed as late filed exhibits to this Application.

12 **F. Notice of Application.**

13 17. Yarnell is in the process of providing notice of this Application by
14 publishing notice, in the form provided by the Commission, in a newspaper of general
15 circulation in the area in which Yarnell provides service. A true copy of the notice as it
16 appeared in the newspaper as will be filed with the Commission.

17 Based on the foregoing, Yarnell respectfully requests the following:

18 A. That the Commission consider this Application on an expedited basis,
19 including the scheduling of a hearing, if necessary, on this matter as soon as practicable;

20 B. That the Commission enter an order approving this Application and
21 authorizing Yarnell to incur indebtedness in an amount not to exceed \$767,000.00 and to
22 encumber its real property and utility plant and system to secure such indebtedness for
23 the purposes described herein;

24 C. That the Commission authorize Yarnell to enter into the necessary
25 agreements and take action as may be required to obtain the grant funding in an amount
26 not to exceed \$533,000.00; and

1 D. That the Commission authorize Yarnell to take such other and further
2 action as may be necessary to effectuate the purposes of this Application, as may be
3 appropriate under the circumstances herein.

4 RESPECTFULLY SUBMITTED this 22nd day of May 2009.

5 GUST ROSENFELD P.L.C.

6
7 By: Shiela B. Schmidt

8 Shiela B. Schmidt

9 Attorneys for Applicant Yarnell Water
10 Improvement Association

11 ORIGINAL and 13 copies delivered this
12 22nd day of May 2009, to:

13 Docket Control
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 By: Monica Rapp

1

YARNELL WATER IMPROVEMENT ASSOCIATION

EXHIBIT 1

**ARIZONA CORPORATION COMMISSION
DECISION NO. 70698**

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

JAN 20 2009

KRISTIN K. MAYES, Chairman
 GARY PIERCE
 PAUL NEWMAN
 SANDRA D. KENNEDY
 BOB STUMP

DOCKETED BY

nr

IN THE MATTER OF THE APPLICATION
 OF YARNELL WATER IMPROVEMENT
 ASSOCIATION, INC. FOR A PERMANENT
 RATE INCREASE.

DOCKET NO. W-02255A-07-0570

IN THE MATTER OF THE APPLICATION
 OF YARNELL WATER IMPROVEMENT
 ASSOCIATION, INC. FOR APPROVAL OF
 FINANCING.

DOCKET NO. W-02255A-08-0355

DECISION NO. 70698OPINION AND ORDER

DATES OF HEARING:

July 22 and October 2, 2008

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Marc E. Stern

APPEARANCES:

Ms. Tammy Zudell, Office Manager, on behalf of
 Yarnell Water Improvement Association, Inc.; and

Mr. Wesley C. Van Cleve, Staff Attorney, Legal
 Division, on behalf of the Utilities Division of the
 Arizona Corporation Commission.

BY THE COMMISSION:

On October 5, 2007, Yarnell Water Improvement Association, Inc. ("Company" or
 "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for an
 increase in its permanent rates and charges.

On November 5, 2007, the Commission's Utilities Division ("Staff") issued a notice of
 insufficiency pursuant to A.A.C. R14-3-103.

On March 3, 2008, Staff issued a notice of sufficiency indicating the Company's rate
 application was sufficient, and classifying the Company as a Class C utility.

1 On March 19, 2008, pursuant to A.A.C. R14-3-101, the Commission issued a Procedural
2 Order to govern the preparation and conduct of this proceeding. A hearing was scheduled for
3 July 22, 2008, filing dates were established and public notice was ordered to be provided by the
4 Company by both publication and by mailing notice to its customers.

5 On June 23, 2008, Staff filed its report recommending approval of its proposed rates and
6 charges. Staff further recommended that the Commission retroactively approve financing for the
7 purchase of a pick-up truck in the amount of \$19,827. However, the Company had not yet filed an
8 application for approval of long-term debt and notice of this application to customers was required.
9 No objections were filed to the Staff Report.

10 On July 7, 2008, by Procedural Order, the Company was ordered to file a financing
11 application and to provide public notice in light of Staff's recommendation for the retroactive
12 approval of financing for a new pick-up truck in the Staff Report. It was further ordered that the July
13 22, 2008, hearing be held for the purpose of taking public comment only. Lastly, Staff was ordered
14 to file a separate Staff Report on the financing application and the time-frame in the rate proceeding
15 was suspended.

16 On July 14, 2008, the Company filed an application requesting Commission approval of
17 long-term financing for the purchase of a new pick-up truck.

18 On July 22, 2008, the hearing was convened for the purpose of taking public comment before
19 a duly authorized Administrative Law Judge of the Commission at its offices in Phoenix, Arizona.
20 The Company appeared through its president and vice president and Staff appeared with counsel. No
21 one appeared to make public comment, but the Company disclosed that public notice had not been
22 given as ordered in the March 19, 2008, Procedural Order. The proceeding was recessed pending the
23 filing of a Motion to consolidate the applications and further public notice given of the hearing which
24 was to be rescheduled.

25 On August 11, 2008, Staff filed a Motion to consolidate the above-captioned proceedings for
26 purposes of hearing.

27 On August 14, 2008, by Procedural Order, the hearing was rescheduled to commence on
28 October 2, 2008, after public notice was given as required by the Commission.

1 On September 2, 2008, the Company filed certification that it had provided notice to the
2 customers in accordance with the Commission's Procedural Order.

3 On October 2, 2008, a full public hearing resumed before a duly authorized Administrative
4 Law Judge of the Commission at its offices in Phoenix, Arizona. The Company appeared through its
5 authorized representative and Staff appeared with counsel. At the conclusion of the hearing, the
6 matter was taken under advisement pending submission of a Recommended Opinion and Order to the
7 Commission.

8 * * * * *

9 Having considered the entire record herein and being fully advised in the premises, the
10 Commission finds, concludes, and orders that:

11 FINDINGS OF FACT

12 1. Pursuant to authority granted by the Commission, Applicant is an Arizona non-profit
13 corporation engaged in the business of providing water service in an area approximately 30 miles
14 southwest of Prescott in Yavapai County, Arizona.

15 2. Applicant's present rates and charges for water were approved in Decision No. 68747
16 (June 5, 2006).¹

17 3. On October 5, 2007, the Company filed an application requesting authority to increase
18 its rates and charges for water service.

19 4. The Company is seeking an increase in its rates and charges in order to address the
20 following needs: to increase the wages of its employees; to make capital improvements on its aging
21 system such as replacing its outdated telemetry system and replacing 70 old, leaky fire hydrants to
22 reduce water loss; and to purchase an emergency back-up generator for the Company's pump house.²

23 5. Staff conducted an investigation of Applicant's proposed rates and charges for water
24 service and filed its Staff Report on the Company's rate application request on June 23, 2008, and
25

26 ¹ Decision No. 68747 denied the Company's application for a rate increase and continued its existing rates which were
established in Decision No. 63506 (March 30, 2001).

27 ² The Company estimated that the capital improvements would cost as follows: the telemetry system, \$69,740; the back-
up generator, \$23,881; and \$1,464 each for the 70 fire hydrants, which the company plans to replace at the rate of 7 per
28 year, for approximately 10 years.

recommended that the Commission approve Staff's recommended rates and charges. Additionally, Staff also recommended approval of long-term financing for the Company for a new pick-up truck which Applicant had purchased in 2006 for \$19,827.

6. On July 7, 2008, by Procedural Order, the Company was ordered to file a financing application and to provide public notice in light of Staff's recommendation for the retroactive approval of financing for a new pick-up truck in the Staff Report. Staff was ordered to file a separate Staff Report on the financing application and the time-frame in the rate proceeding was suspended.

7. On July 14, 2008, the Company filed an application requesting retroactive approval for long-term financing in the amount of \$19,827 utilized to purchase a new pick-up truck.

8. On August 14, 2008, by Procedural Order, the above-captioned proceedings were consolidated for further disposition by the Commission.

9. On September 2, 2008, the Company filed certification that it had provided public notice of the applications and hearing thereon by both mailing notice to its customers and by posting a copy of the official notice at the Company's standpipe in its service area.

10. During the Test Year ended December 31, 2006 ("TY"), Applicant served approximately 531 customers, the majority of which are residential users, who are served by 5/8 x 3/4-inch meters.

11. Average and median water usage by residential users during the TY was 4,447 and 2,338 gallons per month, respectively,

12. The water rates and charges for Applicant at present, and as recommended by Staff with the concurrence of the Applicant at the hearing, are as follows:

<u>MONTHLY USAGE CHARGES:</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
5/8" x 3/4" Meter	\$ 21.00	\$ 23.00
3/4" Meter	21.00	35.00
1" Meter	35.00	42.00
1 1/2" Meter	70.00	84.00
2" Meter	112.00	140.00
3" Meter	210.00	368.00
4" Meter	350.00	575.00
6" Meter	70.00	1,150.00

GALLONAGE CHARGES:

(Per 1,000 Gallons)

 $\frac{5}{8}$ x $\frac{3}{4}$ Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 3,000 gallons		\$ 3.60
3,001 - 7,000 gallons		4.10
7,001 - 50,000 gallons		5.75
Over 50,000		7.00

 $\frac{3}{4}$ Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 3,000 gallons		\$ 3.60
3,001 - 7,000 gallons		4.10
7,001 - 50,000 gallons		5.75
Over 50,000		7.00

1 Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 25,000 gallons		\$ 4.10
25,001 - 50,000 gallons		5.75
Over 50,000		7.00

1½ Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 25,000 gallons		\$ 4.10
25,001 - 50,000 gallons		5.75
Over 50,000		7.00

2 Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 25,000 gallons		\$ 4.10
25,001 - 50,000 gallons		5.75
Over 50,000		7.00

3 Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 25,000 gallons		\$ 4.10
25,001 - 50,000 gallons		5.75
Over 50,000		7.00

4 Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 25,000 gallons		\$ 4.10
25,001 - 50,000 gallons		5.75
Over 50,000		7.00

6 Inch Meter

0 - 5,000 gallons	\$ 2.50	
5,001 - 10,000 gallons	3.50	
10,001 - 50,000 gallons	4.75	
Over 50,000	6.00	
0 - 25,000 gallons		\$ 4.10
25,001 - 50,000 gallons		5.75
Over 50,000		7.00

Standpipe/Bulk, per 1,000 gallons

All gallons	\$ 10.00	\$ 10.00
-------------	----------	----------

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	Current Charges	Service Line Charge	Proposed Charges Meter Charge	Total Charge
5/8" x 3/4" Meter	\$ 546.00	\$ 445.00	\$ 105.00	\$ 550.00
3/4" Meter	600.00	445.00	175.00	620.00
1" Meter	725.00	495.00	235.00	730.00
1 1/2" Meter	982.00	550.00	445.00	995.00
2" Meter	1,601.00	830.00	965.00	1,795.00
3" Meter	2,184.00	1,045.00	1,580.00	2,635.00
4" Meter	3,334.00	1,490.00	2,510.00	4,000.00
6" Meter	5,964.00	2,210.00	4,865.00	7,075.00

SERVICE CHARGES:

	Present Charges	Proposed Charges
Establishment	\$ 40.00	\$ 48.00
Reconnection (Delinquent)	40.00	48.00
After Hours Surcharge	20.00	24.00

Meter Test (If Correct)	30.00	36.00
Deposit	70.00	84.00
Deposit Interest	*	*
Reestablishment (Within 12 Months)	**	**
NSF Check	25.00	30.00
Deferred Payment (Per Month)	N/A	N/A
Meter Reread (If Correct)	10.00	12.00
Late Fee (Per Month)	***	***
Road Permit Fee	N/A	COST

<u>FIRE SPRINKLERS:</u>	<u>Present Charges</u>	<u>Proposed Charges</u>
4 inch or Smaller	N/A	****
6 inch	N/A	****
8 inch	N/A	****
10 inch	N/A	****
Larger than 10 inch	N/A	****

* Per Commission rule A.A.C. R-14-2-403(B).

** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

*** 1.5 percent of the unpaid monthly balance.

**** 100 percent of monthly minimum for a comparable sized meter connection, but no less than \$5 per month. the service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

13. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$573,986 which is the same as its original cost rate base. Staff found that the Company's FVRB was accurate and no adjustments were required.

14. Staff decreased Applicant's TY operating expenses by \$1,674 from \$218,821 to \$217,147 primarily due to a \$678 adjustment to repairs and maintenance expense for what Staff classified as a non-recurring expense. This adjustment was offset by Staff's increase to depreciation expense of \$1,724. Additionally, Staff reduced property tax expense by \$2,281 based on Staff's recommended revenue.

15. Applicant's present water rates and charges produced adjusted operating revenue of \$229,919 and adjusted operating expenses of \$217,147 which resulted in operating income of \$12,772 or a 2.2 percent rate of return on FVRB which equates to a 5.55 percent operating margin.

16. The water rates and charges recommended by Staff and stipulated to by the Company would produce adjusted operating revenues of \$275,009 and adjusted operating expenses of \$213,665

1 resulting in net operating income of \$61,344 or a 10.7 percent rate of return on FVRB which equates
2 to an operating margin of 22.31 percent.

3 17. Staff is recommending an increase in the operating revenue for the Company because
4 even though the Company operates as a not-for-profit corporation, the Company has not had a
5 revenue increase in 6 years and Staff's recommended operating income level of \$61,344 will enable
6 the Company to pay the debt on two long-term loans previously approved by the Commission along
7 with the additional long-term debt for which the Company is seeking approval in this proceeding.

8 18. Staff is recommending an increase of \$45,090 or a 19.61 percent revenue increase
9 over adjusted TY revenues of \$229,919. (Tr. at P. 42)

10 19. Staff's recommended rates would increase the average monthly metered customer
11 water bill by \$7.61 or 23.7 percent, from \$32.12 to \$39.73, and increase the median monthly metered
12 customer water bill by \$4.57 or 17.0 percent, from \$26.85 to \$31.42.

13 20. According to the Staff Report, the Applicant is in compliance with prior Commission
14 Orders and is in good standing with the Commission.

15 21. The Company is in compliance with the requirements of the Arizona Department of
16 Environmental Quality and is providing water which meets the requirements of the Safe Drinking
17 Water Act.

18 22. The Commission has previously approved the Company's curtailment tariff and its
19 backflow prevention tariff.

20 23. With its application for financing approval, the Company is seeking the Commission's
21 approval for a 5-year loan with Ford Motor Credit Corporation for a 2006 Ford Ranger pick-up truck
22 purchased for \$19,827. The new pick-up truck was purchased in 2006 to replace a 1990 Toyota pick-
23 up truck which, according to the Company's witness, needed costly repairs.

24 24. Staff's accounting witness, Mr. Charles Myhlhausen, indicated that he had been
25 advised by the Company that its representatives were not aware that financing approval was
26 necessary for incurring long-term debt for periods of more than 12 months. Despite the late
27 application, Staff is recommending approval of the Company's request for long-term financing for
28 the 2006 pick-up truck. Mr. Myhlhausen indicated that Staff normally allows for an operating margin

1 of 10 to 12 percent, but in this instance was required to give the Company sufficient revenue to meet
 2 its operating expenses, debt service and to allow for future contingencies. Staff believes that its
 3 recommended revenues of \$275,009 will cover these requirements.

4 25. In light of the Company's request for financing, Staff reviewed the effect of the
 5 requested financing on the Company's Times Interest Earned Ratio ("TIER")³ and its debt service
 6 coverage ("DSC").⁴

7 26. A TIER of less than 1.0 is not sustainable in the long term, but does not necessarily
 8 mean that debt obligations cannot be met in the short term. A DSC greater than 1.0 means operating
 9 cash flow is sufficient to cover debt obligations.

10 27. Based on its analysis, Staff found that Applicant would have a TIER of 3.13 and DSC
 11 of 1.66 with the approval of the long-term financing for the Company's 2006 Ford pick-up truck.
 12 Staff believes that its proposed rates will enable the Company to have adequate cash flow
 13 (approximately \$39,000) to proceed with planned capital improvements and to have cash for
 14 contingencies.

15 28. Besides recommending approval of its recommended rates and charges, Staff is also
 16 recommending the Commission order the following:

- 17 • that applicant notify its customers of the water rates and charges approved hereinafter and
 18 their effective date by a means of an insert in its next monthly billing and file a copy of
 the notice sent to its customers with the Commission's Docket Control;
- 19 • that Applicant file, within 30 days of the effective date of this Decision, as a compliance
 20 item in this docket, with the Commission's Docket Control, a copy of the schedule of its
 approved rates and charges;
- 21 • that the Company adopt the depreciation rates delineated by Staff in Exhibit 6 of the
 Engineering Report utilized in this proceeding on a going forward basis;
- 22 • that the Company be authorized to issue long-term debt not to exceed \$19,827 at an
 interest rate of not more than 10.5 percent for a term of 5 years;
- 23 • that the Company engage in any transactions and execute any documents to effectuate the
 24 authorization requested with the application;
- 25 • that the Company file, within 30 days of the effective date of this Decision, with the

26 ³ The times interest earned ratio is an indicator of a company's ability to meet the interest payments on its debt. The
 27 times interest earned calculation is a corporation's income before interest and income tax expenses, divided by interest
 expense.

28 ⁴ The debt service coverage ratio calculates the amount of cash available to meet debt obligations. A debt service
 coverage ratio of 1 is the minimum required to ensure sufficient cash flow to cover the debt. The ratio is determined by
 dividing the total available cash flow by the amount of debt.

Commission's Docket Control, as a compliance item in this docket, copies of all notes and the documents related to the transactions;

- that the Company obtain the Commission's approval for any long-term debt prior to its execution in the future;
- that the Company continue to reduce its water loss. Staff further recommends that the Company monitor the gallons pumped and gallons sold to determine the actual water loss on an annual basis. The monitoring report should be docketed as a compliance item in this case within 13 months of the effective date of this Decision with the Commission's Docket Control. If the reported water loss for the period is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plans to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce its water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of this Decision; and
- that Applicant, in addition to the collection of its regular rates and charges, collect from its customers their proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

29. Because an allowance for the property tax expense of Applicant is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as 20 years. It is reasonable, therefore, that as a preventive measure the Company shall annually file, as part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

30. Based upon our review of the record, we find that Staff's proposed rates are reasonable and together with its additional recommendations should be adopted.

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301 and 40-302.

2. The Commission has jurisdiction over Applicant and of the subject matter of the applications.

3. Notice of the applications was provided in the manner prescribed by law.

4. Based on the record, the rates and charges proposed by Staff and authorized

hereinafter are just and reasonable.

5. Staff's recommendations as set forth in Findings of Fact No. 28, are reasonable and should be adopted.

6. The proposed long-term financing is for lawful purposes, within Applicant's corporate powers, is compatible with the public interest, with sound financial practice and a proper performance by Applicant of service as a public service corporation, and will not impair Applicant's ability to perform that service.

7. The financing application approved hereinafter is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that the application of Yarnell Water Improvement Association, Inc. is hereby directed to file on or before January 30, 2009, a revised rate schedule setting forth the following rates and charges:

MONTHLY USAGE CHARGES:

$\frac{5}{8}$ " x $\frac{3}{4}$ " Meter	\$ 23.00
$\frac{3}{4}$ " Meter	35.00
1" Meter	42.00
1 $\frac{1}{2}$ " Meter	84.00
2" Meter	140.00
3" Meter	368.00
4" Meter	575.00
6" Meter	1,150.00

GALLONAGE CHARGES:

(Per 1,000 Gallons)

$\frac{5}{8}$ x $\frac{3}{4}$ Inch Meter	
0 - 3,000 gallons	\$ 3.60
3,001 - 7,000 gallons	4.10
7,001 - 50,000 gallons	5.75
Over 50,000	7.00

$\frac{3}{4}$ Inch Meter	
0 - 3,000 gallons	\$ 3.60
3,001 - 7,000 gallons	4.10
7,001 - 50,000 gallons	5.75
Over 50,000	7.00

1 1 Inch Meter
 0 - 25,000 gallons \$ 4.10
 2 25,001 - 50,000 gallons 5.75
 3 Over 50,000 7.00

4 1½ Inch Meter
 0 - 25,000 gallons \$ 4.10
 5 25,001 - 50,000 gallons 5.75
 6 Over 50,000 7.00

7 2 Inch Meter
 0 - 25,000 gallons \$ 4.10
 8 25,001 - 50,000 gallons 5.75
 9 Over 50,000 7.00

10 3 Inch Meter
 0 - 25,000 gallons \$ 4.10
 11 25,001 - 50,000 gallons 5.75
 12 Over 50,000 7.00

13 4 Inch Meter
 0 - 25,000 gallons \$ 4.10
 14 25,001 - 50,000 gallons 5.75
 15 Over 50,000 7.00

16 6 Inch Meter
 0 - 25,000 gallons \$ 4.10
 17 25,001 - 50,000 gallons 5.75
 18 Over 50,000 7.00

19 Standpipe/Bulk, per 1,000 gallons
 All gallons \$ 10.00

20 SERVICE LINE AND METER INSTALLATION CHARGES:
 (Refundable pursuant to A.A.C. R14-2-405)

	Service Line Charge	Meter Charge	Total Charge
21 5/8" x 3/4" Meter	\$ 445.00	\$ 105.00	\$ 550.00
22 3/4" Meter	445.00	175.00	620.00
23 1" Meter	495.00	235.00	730.00
24 1½" Meter	550.00	445.00	995.00
2" Meter	830.00	965.00	1,795.00
25 3" Meter	1,045.00	1,580.00	2,635.00
4" Meter	1,490.00	2,510.00	4,000.00
26 6" Meter	2,210.00	4,865.00	7,075.00

27 SERVICE CHARGES:

28 Establishment \$ 48.00
 Reconnection (Delinquent) 48.00

1	After Hours Surcharge	\$ 24.00
	Meter Test (If Correct)	36.00
2	Deposit	84.00
	Deposit Interest	*
3	Reestablishment (Within 12 Months)	**
	NSF Check	30.00
4	Meter Reread (If Correct)	12.00
	Late Fee (Per Month)	***
5	Road Permit Fee	Cost

FIRE SPRINKLERS:

7	4 inch or Smaller	****
	6 inch	****
8	8 inch	****
	10 inch	****
9	Larger than 10 inch	****

10 * Per Commission rule A.A.C. R-14-2-403(B).

11 ** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

12 *** 1.5 percent of the unpaid monthly balance.

13 **** 100 percent of monthly minimum for a comparable sized meter connection, but no less than \$5 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

15 IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. shall notify
16 its customers of the water rates and charges approved hereinafter and their effective date by means of
17 an insert in its next monthly billing and file a copy of the notice when sent to its customers with the
18 Compliance Section of the Utilities Division.

19 IT IS FURTHER ORDERED that the above water rates and charges shall be effective for all
20 services provided on and after February 1, 2009.

21 IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. is hereby
22 directed to comply with Staff's recommendations as set for the in Findings of Fact No. 28.

23 IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. is hereby
24 authorized to issue long-term debt in an amount not to exceed \$19,827 for a term of 5 years at no
25 greater rate of interest than 10.5 percent per annum.

26 IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. is hereby
27 authorized to engage in any transactions and to execute any documents necessary to effectuate the
28 authorization granted hereinabove and file, within 30 days of the effective date of this Decision, with

1 the Commission's Docket Control, as a compliance item in this docket, copies of all executed loan
2 documents certifying that the transactions have been completed.

3 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Yarnell
4 Water Improvement Association, Inc. using the proceeds for the purposes set forth in the application.

5 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
6 constitute nor imply approval or disapproval by the Commission of any particular expenditure of the
7 proceeds derived thereby for purposes of establishing just and reasonable rates.

8 ...

9 ...

10 ...

11 ...

12 ...

13 ...

14 ...

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

27 ...


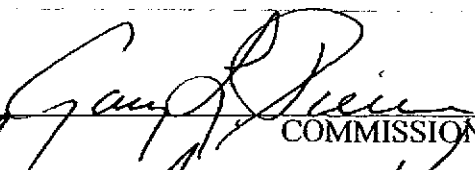

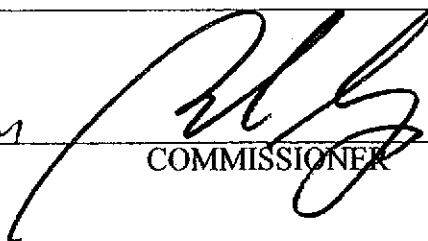
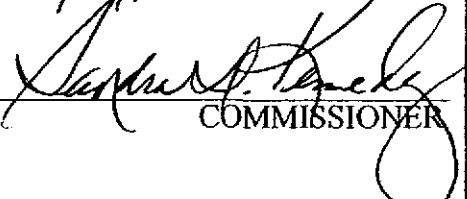
28 ...

IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc., in addition to the collection of its regular rates and charges, shall collect from its customers their proportionate share of any privilege, sale, or use tax as provided for in A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. shall annually file, as part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

	
CHAIRMAN	COMMISSIONER
	
COMMISSIONER	COMMISSIONER
	
	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20TH day of JAN, 2009.


BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

MES:db

1 SERVICE LIST FOR: YARNELL WATER IMPROVEMENT ASSOCIATION, INC.

2 DOCKET NO.: W-02255A-07-0570 AND W-02255A-08-0355

3 Tammy Zudell
4 YARNELL WATER IMPROVEMENT ASSOCIATION, INC.
5 P.O. Box 727
Yarnell, Arizona 85362-0727

6 Janice Alward, Chief Counsel
7 Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
8 Phoenix, Arizona 85007

9 Ernest Johnson, Director
10 Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
11 Phoenix, Arizona 85007

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

2

YARNELL WATER IMPROVEMENT ASSOCIATION

EXHIBIT 2

BREAKDOWN OF ESTIMATED COSTS

Project Budget – Funding from all sources has been budgeted for the estimated expenditures as follows:

Project Costs:

Construction	\$ 280,000.00
Engineering Fees	71,000.00
Engineering Inspections	29,820.00
Equipment	440,000.00
Bond Counsel	65,000.00
Refinance Loans	289,862.00
Administration	23,318.00
Project Contingency	71,000.00
Davis Bacon	30,000.00
Totals	\$1,300,000.00

3

YARNELL WATER IMPROVEMENT ASSOCIATION

EXHIBIT 3

USDA-RD LETTER OF CONDITIONS



United States
Department of
Agriculture
Rural Development

230 N. First Ave., Ste 206
Phoenix, AZ 85003-1706
(602) 280-8745
(602) 280-8705 TDY
(602) 280-8881 FAX

April 17, 2009

Bernie Dickson
Yarnell Water Improvement Association
P.O. Box 727
Yarnell, AZ 85362

RE: Letter of Conditions, Water System Improvements

Dear Mr. Dickson:

This letter establishes conditions which you must understand and agree to before further consideration may be given to your application. The State and Area staff of USDA, Rural Development will administer the loan and grant on behalf of the Rural Utilities Service (RUS). You must report any changes in project cost, source of funds, scope of services, or any other significant changes in the project to USDA, Rural Development for review and approval. A written amendment to this letter will be prepared for any changes approved. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application.

Your documents concerning the creation and legal existence of your entity are administratively acceptable; however, the documents will be reviewed further by our Office of the General Counsel at the time your file is forwarded for closing instructions. Any changes required by our Office of the General Counsel will be included in the closing instructions.

This letter is not to be considered as loan approval or as representation to the availability of funds.

You may be required to refinance (graduate) the unpaid balance of its RUS loan, in whole or in part, upon the request of RUS if at any time it shall be determined the authority is able to obtain a loan for such purposes from responsible cooperative or private sources at reasonable rates and terms for loans for similar purposes and periods of time.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, S.W., Washington, DC 20250-9410
or call (800)795-3272 (voice) or (202) 720-6382 (TDD).

All parties may access our web-site located at www.usda.gov/rus/water/ for the following:

- a. RUS Instruction 1780, Water & Waste Loan/Grant Program
- b. Bulletin 1780-26, Guidance for the Use of EJCDC Funding Agency Edition Documents on Water and Waste Projects with R U S Financial Assistance
- c. RUS Bulletin 1780-30, Water Programs Audit Guide and Compliance Statement
- d. RUS Bulletin 1780-31, Water Programs Compliance Supplement for OMB Circular A-133 Audits

The conditions referred to above are as follows:

1. **Project Budget** – Funding from all sources has been budgeted for the estimated expenditures as follows:

Project Costs:

Construction	\$ 280,000.00
Engineering Fees	71,000.00
Engineering Inspections	29,820.00
Equipment	440,000.00
Bond Counsel	65,000.00
Refinance Loans	289,862.00
Administration	23,318.00
Project Contingency	71,000.00
Davis Bacon	30,000.00

TOTALS \$1,300,000.00

2. **Project Funds** - The project funding is planned in the form of a loan and grant from the following sources and amounts:

RUS Loan	767,000.00
RUS Grant	533,000.00
Total Project Funding (All Sources):	\$1,300,000.00

Any changes in funding sources following obligation of Agency funds must be reported to the processing official. You must assure that all project funds are expended only for the eligible items included in the project budget of this letter of conditions or as amended by the Agency in writing at a later date.

After providing for all authorized costs, any remaining RUS project funds will be considered to be RUS grant funds and refunded to RUS. If the amount of unused RUS project funds exceeds the RUS grant, that part would be RUS loan funds and applied as an extra payment.

3. **Disbursement of Funds** – The RUS funds or interim financing will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of any disbursements required of your entity, over 30 day periods. Funds will be disbursed by electronic transfer of funds. Interim financing will be used for the RUS loan if it is available at reasonable rates and terms. You must provide RUS with a copy of the tentative agreement reached in connection with interim financing for review and approval.

You must establish a separate account, to be known and hereafter referred to as the Construction Account, with a participating 31 CFR Part 202 collateral depository, federal agency, or Federal Reserve Bank acting as a fiscal agent in the United States. All project funds will be deposited into this account. The account shall be used solely for the purpose of paying authorized costs of the project as outlined in the project budget. Financial institutions or depositories accepting deposits of public funds and providing other financial agency services to the Federal Government are required to pledge adequate, acceptable securities as collateral. General requirements for designating depositories and regulations governing the pledging of collateral are identified in 31 CFR Part 202 ("Depositaries and Financial Agents of the Federal Government"). Treasury's current acceptability and valuation requirements are identified in 31 CFR Part 380 ("Collateral Acceptability and Valuation") and specific eligibility and valuation guidance is provided in Treasury's procedural instructions and on Treasury's Bureau of the Public Debt website at www.publicdebt.treas.gov. All funds in the account will be secured by a collateral pledge equaling at least 100% of the highest amount of funds expected to be deposited in the Construction Account at any one time.

4. **Security** – (Promissory Notes - Non-Profit Association) The loan must be secured by a Deed of Trust or Mortgage having 1st lien priority, a financing statement on all personal property now owned or hereafter acquired, a pledge of all gross revenues of the system, and other agreements between you and the Agency as set forth in the RUS Bulletin 1780-28 "Loan Resolution Security Agreement." Prior to the adoption of the RUS Bulletin 1780-28 "Loan Resolution Security Agreement," the members of the Association, at a properly called meeting, must review and adopt Form RD 1942-8, "Resolution of Members or Stockholders." Your attorney must provide RD with a description of the facility which should be included in the Deed of Trust.
5. **Loan Repayment** – (Monthly Installments) The loan will be scheduled for repayment over a period of 40 years. The payments due the first 2 year(s) will consist of interest only. Payments for the remaining 38 years will be equal amortized monthly installments. For planning purposes use a 3.750% interest rate and a monthly amortization factor of 4.12, which provides for a monthly payment of \$3,161.00.

The interest rate will be the lower of the rate in effect at the time of loan approval or the time of loan closing, whichever is less, unless you choose otherwise. Should the interest rate be reduced, the payment will be recalculated to the lower amount. The payment due date will be established as the day that the loan closes.

You will be required to complete SF-5510, "Authorization Agreement for Preauthorized Payments" for all new and existing indebtedness to the Agency. It will allow for your payment to be electronically debited from your account on the day your payment is due.

6. **Reserves** – Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance and repairs, and assist with debt service should the need arise. Reserves can also be established and maintained for the anticipated and expected expenses including but not limited to operation and maintenance, customer deposits, and asset management for short-lived assets.

As a part of this Agency loan proposal you must establish and fund monthly a debt service reserve fund equal to 10% of the monthly payment each month over the life of the loan until you accumulate one annual installment. This reserve is required to establish an emergency fund for emergency maintenance and repairs and debt repayment should the need arise. Ten percent of the proposed loan installment would equal \$ 316.00 per month.

7. **Users** – This letter of conditions is based upon you providing evidence or a certification that there will be at least 528 users on the [existing and proposed] system when construction has been completed.
8. **Income Available** – You must maintain a rate schedule that provides adequate income to meet the minimum requirements for operation and maintenance, debt service, and reserves.
9. **Operation and Maintenance Expenses** – O&M expenses must be properly budgeted to ensure the financial viability of any operation. For planning purposes, we have projected O&M expenses based on the information provided in the preliminary engineering report which should be representative of a typical year. This information is utilized to determine loan repayment and should be reflected in your proposed operating budget. It is expected that O&M will change over each successive year and user rates will need to be adjusted appropriately.

10. **Proposed Operating Budget and User Rate Analysis** - You will be required to submit a copy of your proposed annual operating budget and rate analysis to the Agency which supports the proposed loan repayment prior to the Agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow after completion of the construction phase. The rate analysis will be required to show the number of users, their average consumption based on a twelve month consecutive average, and rate structure to support the necessary revenue to make the operating budget cash flow. Form RD 442-7 - "Operating Budget" attached may be utilized for this purpose.
11. **Insurance and Bonding Requirements** - Prior to loan closing or start of construction, whichever occurs first, you must acquire the types of insurance and bond coverage shown below. The use of deductibles may be allowed providing you have the financial resources to cover potential claims requiring payment of the deductible. The Agency strongly recommends that you have your engineer, attorney, and insurance provider(s) review proposed types and amounts of coverage, including any exclusions and deductible provisions. It is your responsibility and not that of the Agency to assure that adequate insurance and fidelity or employee dishonesty bond coverage is maintained.
 - a. **General Liability Insurance** - Include vehicular coverage.
 - b. **Workers' Compensation** - In accordance with appropriate State laws.
 - c. **Position Fidelity Bond(s)** - All positions occupied by persons entrusted with the receipt and/or disbursement of funds must be bonded. You should have each position bonded in an amount equal to the maximum amount of funds to be under the control of that position at any one time. The minimum coverage acceptable to the Agency will be for each position to be bonded for an amount at least equal to one annual installment on your loan(s). The coverage may be increased during construction of this project based on the anticipated monthly advances. The amount of coverage should be discussed and approved by the Agency.
 - d. **National Flood Insurance** - If the project involves acquisition or construction in designated special flood or mudslide prone areas, you must purchase a flood insurance policy at the time of loan closing.
 - e. **Real Property Insurance** - Fire and extended coverage will normally be maintained on all structures except reservoirs, pipelines and other structures if such structures are not normally insured and subsurface lift stations except for the value of electrical and pumping equipment. Prior to the acceptance of the facility from the contractor(s), you must obtain real property insurance (fire and extended coverage) on all facilities identified above.

12. **Accounting Services** - You may be required to obtain the services of an independent licensed Certified Public Accountant (CPA). When permitted by state statutes or with the approval of the Agency, a state or Federal auditor may perform the audit in lieu of a CPA. A CPA will be considered independent if the CPA:

- a. Meets the standards for independence contained in the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct in effect at the time the CPA's independence is under review;
- b. Does not have any direct financial interest or any material indirect financial interest in the borrower during the period covered by the audit; and
- c. Is not, during the period of the audit, connected with the borrower as a promoter, underwriter, trustee, director, officer or employee.

Audit Agreement: You must enter into a written audit agreement with the auditor and submit a copy to the Agency prior to advertisement of bids. The audit agreement may include terms and conditions that the borrower and auditor deem appropriate; however, the agreement should include the following:

- a. A statement that the auditor will perform and document the audit work in accordance with Generally Accepted Government Auditing Standards, (GAGAS), as outlined in the attached booklet, "Government Auditing Standards (Revised 1994)", and the professional standards of the AICPA;
- b. A statement that the auditor will submit the completed audit and accompanying letters to your governing body 30 days prior to the date the audit is due to the Agency;
- c. A statement that the auditor will make all audit-related documents, including work papers, available to the Agency or its representatives, upon request; and
- d. A statement that the auditor will immediately report, in writing, all irregularities and illegal acts to your governing body and the Agency.

Prior to the advertisement for bids, your accountant must certify to you and the Agency that the accounts and records as required by your bond [resolution] [ordinance] have been established and are operational.

Quality Review Requirement: As required by GAGAS, the auditor must belong to and participate in an external quality review program and provide you with a copy of the most recent quality review report. These reviews are performed every 3 years by an independent organization to determine if the auditor is following established audit procedures and applicable auditing standards.

Audit Requirements: The following management data will be required from you on an annual basis and be submitted to the Agency as specified below:

- a. A borrower that expends \$500,000 or more in federal financial assistance per fiscal year shall submit an audit performed in accordance with the requirements of OMB Circular A-133. As described above, the total federal funds expended from all sources shall be used to determine federal financial assistance expended. Projects financed with interim financing are considered federal expenditures. OMB Circular A-133 audits shall be submitted no later than 9 months after the end of the fiscal year. In addition to submitting two (2) copies of the audit report to the Agency, the borrower is also required to submit copies of OMB Circular A-133 audits, accompanying audit letters (the "reporting package"), and the Data Collection Form to the Federal clearinghouse designated by OMB to retain as an archival copy. The Federal clearinghouse address is: Federal Audit Clearinghouse, Bureau of the Census, 1201 E. 10th Street, Jeffersonville, Indiana 47132. RUS Bulletin 1780-31, "Water Programs Compliance Supplement for OMB Circular A-133 Audits" outlines the requirements of OMB Circular A-133 audits.
- b. A borrower that expends less than \$500,000 in Federal financial assistance per fiscal year and an outstanding Agency loan balance of \$1,000,000 or more, shall submit an audit performed in accordance with Water and Waste audit requirements (i.e., a GAGAS audit). These audits shall be submitted to the Agency no later than 150 days after the end of the fiscal year. Two (2) copies of the audit report are required by RD. An audit performed in accordance with Water and Waste audit requirements should not be submitted to the Federal clearinghouse. RUS Bulletin 1780-30, "Water Programs Audit Guide and Compliance Supplement" outlines the requirements for Water Programs Audits.
- c. A borrower that expends less than \$500,000 in Federal financial assistance per fiscal year and has an outstanding Agency loan balance of less than \$1,000,000 may submit a management report in lieu of an audit report unless notified by the Agency otherwise. Management reports shall be submitted to the Agency no later than 60 days after the end of the fiscal year. A year-end management report shall consist of : Form RD 442-3, "Balance Sheet", and Form RD 442-2, "Statement of Budget, Income and Equity", or forms that provide the information in a similar format. Form RD 442-2 should have Schedule 1, all Columns completed on page 1, and page 2. Schedule 2 is not required for year end reports. An annual audit report or similar financial statements may be submitted in lieu of Forms RD 442-2 and 442-3. The financial report must be submitted no later than 150 days after the end of the borrower's fiscal year.

Compensation for preparation of the A-133 audit or your annual audit is not included in project funds and should be paid from the operational revenues generated from your system operation.

Annual Budget and Projected Cash Flow: Thirty days prior to the beginning of each fiscal year, you will be required to submit an annual budget and projected cash flow to this office. You should submit two copies of Form RD 442-2, Statement of Budget, Income and Equity, Schedule 1, page 1; and Schedule 2, Projected Cash Flow. The only data required at this time on Schedule 1, page 1, is Columns 2 & 3. All of Schedule 1, page 2 and Schedule 2, Projected Cash Flow will be required. You may submit annual budgets on other financial statements for cash flow projections rather than Form RD 442-2. With the submission of the annual budget, you will be required to provide a current rate schedule, a current listing of the Board or Counsel members and terms.

Quarterly Reports – Borrowers receiving their first loan from RD, will be required to submit two copies of Form RD 442-2, Schedule 1, page 1, columns 2-6, as appropriate, and page 2. You may submit historical quarterly financial statements on a format other than Form RD 442-2. This information should be received in the servicing office thirty days after the end of each of the first three quarters of the fiscal year.

13. **Legal Services** – The Agency has been reviewed the “Legal Services Agreement.” The agreement as submitted has been accepted and approved by separate letter. Project funding included for this purpose is outlined in the paragraph on “Project Funding.”
14. **Property Rights** - Acquisitions of necessary land and rights must be accomplished in accordance with the Uniform Relocation and Real Property Acquisition Act.

Prior to advertisement for construction bids, you must furnish satisfactory evidence that you have or can obtain adequate continuous and valid control over the lands and rights needed for the project. Such evidence of control over the lands and rights must be in the following form:

- a. A right-of-way map showing clearly the location of all lands and rights needed for the project. The map must designate public and private lands and rights and the appropriate legal ownership thereof.
- b. Preliminary Title Work – (Title Insurance) Copies of deeds, contracts, leases, or options for any real estate needed along with a title insurance binder.

For existing facilities, this will include previously acquired rights. The binder will be in the amount of the proposed loan and name the United States of America, acting through the United States Department of Agriculture, as the proposed insured.

A certification and legal opinion relative to title to rights-of-way and easements. Form RD 442-22, "Opinion of Counsel Relative to Rights-of-Way," may be used. This form may contain a few exceptions such as properties that must be condemned; however, prior to the start of construction or loan closing, whichever occurs first, a new Form RD 442-22, must be provided which contains no exceptions.

A narrative opinion from your attorney concerning all permits, certificates, licenses and other items necessary to show that all legal requirements can be met and stating how they will be met.

- c. Final Title Work - Immediately after closing, a Title Insurance Policy showing no exceptions must be provided.

A certification and legal opinion relative to title to rights-of-way and easements. Form RD 442-22, "Opinion of Counsel Relative to Rights-of-Way," may be used. This form must be provided showing no exceptions.

- 15. **Engineering Services** – The Agency must approve any agreements or modifications to agreements for professional design services. The agreement for engineering services should consist of the EJCDC documents as indicated in RUS Bulletin 1780-26, "Guidance for the Use of EJCDC Standard Documents on Water and Waste Projects with RUS Financial Assistance" or other approved form of agreement.
- 16. **Resident Inspection** – Full-time inspection is required unless waived or modified by RD in writing prior to advertisement for bids. This service is to be provided by the consulting engineer or other arrangements as approved by the Agency. Prior to the pre-construction conference, a resume of qualifications of the resident inspector(s) will be submitted to the owner and Agency for review and approval. The owner will provide a letter of acceptance for all proposed inspectors to the engineer and Agency. The resident inspector(s) must attend the pre-construction conference.
- 17. **Environmental Requirements** –
 - a. In the event that an item of archaeological significance is encountered during the project, the Applicant is to comply with the National Historic Preservation Act of 1966.
 - b. **Project Modifications** – The project as proposed has been evaluated to be consistent with all applicable environmental requirements. If the project or any project element deviates from or is modified from the original approved project, additional environmental review may be required.

18. **Vulnerability Assessments (VA) and Emergency Response Plans (ERP) -**

Congress enacted the Public Health Security and Bioterrorism Preparedness Response Act of 2002, Public Law 107-188 (Bioterrorism Act). The Bioterrorism Act amended the Safe Drinking Water (SDWA) to require all medium and large sized community water systems (serving populations greater than 3,300) to assess vulnerability to terrorist attack and develop emergency plans for response to such an attack. Medium and large community water systems are being monitored by the U.S. EPA for completion of VA's and ERP's.

The Agency requires all financed water and wastewater systems to have a vulnerability assessment (VA) and an emergency response plan (ERP) in place. New water or wastewater systems must provide a certification that an ERP is complete prior to the start of operations. A certification that a VA is complete must be submitted within one year of the start of operations. All other borrowers must provide a certification that a VA and ERP are completed prior to bid authorization.

You will also be required to provide a certification that the VA and ERP is complete and is current every three years after the start of operations. The Agency does not need or want a copy of the VA or ERP. The requested certification will be sufficient to meet our needs. Technical assistance providers are available to provide on site assistance if desired.

19. **Contract Documents, Final Plans and Specifications -**

- a. The contract documents should consist of the EJCDC Construction Contract Documents as indicated in RUS Bulletin 1780-26 or other approved form of agreement.
- b. The contract documents, final plans, and specifications must comply with RUS Instruction 1780, Subpart C - Planning, Designing, Bidding, Contracting, Construction and Inspections and be submitted to the Agency for approval prior to advertisement for bids.
- c. The Agency requires a pre-construction conference, pre-final, final, and warranty inspection.
- d. The Agency requires prior agency concurrence of all Change Orders, Invoices, and Payment Estimates.
- e. The Agency will monitor construction through routine inspections and review of monthly payment estimates, change orders, and inspector's daily record to protect the interest of the agency.

20. **American Recovery and Reinvestment Act of 2009 ("Recovery Act").** Recovery Act requirements apply to this financing. In addition to the other conditions contained in this Letter of Conditions, you must understand and agree to these following conditions specific to the Recovery Act:

(1). **Certifications.** With respect to Recovery Act funds made available to State or local governments for infrastructure investments, Section 1511 of the Recovery Act requires the Governor, mayor or other chief executive, as appropriate, to certify that the infrastructure investment has been properly approved as required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars. RD Water and Waste personnel will provide specific guidance on the information required in the certification.

(2). **Reports on Use of Funds.** Section 1512 of the Recovery Act requires each recipient receiving Recovery Act funding to provide specific information to the government on a periodic basis for inclusion in various internal and publicly-available reports. RD Water and Waste Program personnel will provide specific guidance on the type and frequency of information required to assist Recovery Act recipients in complying with this condition.

(3). **Buy American.** Section 1605 of the Recovery Act requires that all projects financed with Recovery Act funds be bid and constructed using only iron, steel and manufactured goods produced in the United States in accordance with Section 1605 of the Recovery Act. Specific guidance, including contract provisions to be included in any construction contracts, is being formulated and drafted as of the date of this Letter of Conditions. RD Water and Waste Program personnel will provide specific guidance related to this condition as soon as it is available.

(4). **Wage Rate Requirements.** Section 1606 of the Recovery Act requires that all laborers and mechanics employed by contractors and subcontractors for the project will be paid wages at rates not less than those prevailing on projects of a character similar in the locality where this project will occur. Specific guidance, including contract provisions to be included in any construction or otherwise related contracts, is being formulated and drafted as of the date of this Letter of Conditions. RD Water and Waste Program personnel will provide specific guidance related to this condition as soon as it is available.

Compliance with the conditions in this section is required for financing under the Recovery Act. However, these conditions are not substitutes for, or in lieu of, the remaining conditions contained in this Letter of Conditions. Each of the conditions in this Letter of Conditions must also be understood and complied with to receive financing for your project.

21. **Applicable State Statutes and Requirements** – All applicable State statutes and requirements must be met.
22. **Processing Forms** - At a properly called meeting, you must adopt and properly execute the following forms, and minutes showing the adoption must be provided:

Form RD 400-1 - "Equal Opportunity Agreement"

Form RD 400-4 - "Assurance Agreement"

Form AD 1047 - "Certification Regarding Debarment, Suspension and other Responsibility Matters"

Form AD 1049 - "Certification Regarding Drug-Free Workplace Requirements"

Form RD 1910-11 - "Applicant Certification, Federal Collection Policies"

RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans"

Standard Form LLL - "Disclosure of Lobbying Activities" (If Applicable)

RUS Bulletin 1780-28 - "Loan Resolution Security Agreement"

Form RD 1942-8 - "Resolution of Members or Stockholders"

Form RD 1940-1 - "Request for Obligation of Funds"

Form RD 1942-46, "Letter of Intent to Meet Conditions"

The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

23. **Civil Rights & Equal Opportunity** - You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

Section 504 of the Rehabilitation Act of 1973 – Under section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Agency financial assistance.

Civil Rights Act of 1964 – All borrowers are subject to, and facilities must be operated in accordance with, title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and subpart E of part 1901 of this title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this title.

The Americans with Disabilities Act (ADA) of 1990 – This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, State and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by State and local public entities which provides services, programs and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities which accommodate the public.

Age Discrimination Act of 1975 – This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Agency financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

24. **Bid Authorization** - Once all the conditions outlined in this letter have been met, the Agency may authorize you to advertise the project for construction bids. Such advertisement must be in accordance with appropriate State statutes. No Notice of Award will be issued until the Agency concurs with the engineer's recommendations. Immediately after bid opening you must provide the Agency with (a) bid tabulation, and (b) your engineer's evaluation of bids and recommendations for contract awards. If the Agency agrees that the construction bids received are acceptable, adequate funds are available to cover the total project costs, and all the administrative conditions of loan approval have been satisfied, loan closing instructions will be issued to you setting forth any further requirements that must be met before the loan can be closed, then a Notice of Award may be issued. Obligated [loan and grant] funds not needed to complete the proposed project will be de-bligated prior to construction. Any reductions will be applied to grant funds first.

When all parties agree that the closing requirements can be met, a mutually acceptable date for the loan closing will be scheduled.


25. **Cost Overruns** – Cost overruns must be due to high bids or unexpected construction problems that cannot be reduced by negotiations, redesign, use of bid alternatives, rebidding or other means prior to consideration by the Agency for subsequent funding. Such requests will be contingent on the availability of funds. Cost overruns exceeding 20% of the development cost at time of loan or grant approval or where the scope of the original purpose has changed will compete for funds with all other applications on hand as of that date.
26. **Use of Remaining Funds** – Applicant contributions and connection or tap fees will be the first funds expended in the project. Remaining funds may be considered in direct proportion to the amounts obtained from each source and handled as follows:

- Remaining funds may be used for eligible [loan and grant] purposes, provided the use will not result in major changes to the original scope of work and the purpose of the [loan and grant] remains the same.
- Agency loan funds that are not needed will be applied as an extra payment on the Agency indebtedness unless other disposition is required by the bond ordinance, resolution, or State statute.
- Grant funds not expended for authorized purposes will be cancelled within 90 days of project completion. Prior to actual cancellation, you and your attorney and engineer will be notified of the Agency's intent to cancel the remaining funds and given appropriate appeal rights.

If the conditions set forth in this letter are not met within 6 months from the date of this letter, the Agency reserves the right to discontinue processing of the application. In the event the project has not advanced to the point of loan closing within 6 months and it is determined the applicant still wishes to proceed, it may be necessary to review the conditions outlined in this letter. If during that review, it is determined the conditions outlined are no longer adequate, the Agency reserves the right to require that the letter of conditions be revised or replaced.

We believe the information in this letter clearly sets forth the conditions which must be complied with; however, this letter does not relieve you from meeting the requirements of RUS Instruction 1780. If you have any questions, please do not hesitate to contact me.

Sincerely yours,


LEONARD GRADILLAS
Community Program Director

Attachments

cc: Shiela Schmidt, Gust Rosenfeld, 201 E. Washington, Suite 900, Phoenix, AZ 85004

Mike Brown, Claycomb/Rockwell Associates, Inc., 8991 E. Valley Rd., Prescott Valley, AZ 86314

Walter Blodgett, Blodgett CPA, LLC, 811 N. Tegner St., Suite 125, Wickenburg, AZ 85390

4

YARNELL WATER IMPROVEMENT ASSOCIATION

EXHIBIT 4

APPROVAL OF THE LOAN AND GRANT REQUEST



United States
Department
of Agriculture
Rural Development

Arizona State Office
230 N. First Avenue
Suite 206
Phoenix, AZ 85003-1706

(602) 280-8745
(602) 280-8705 TDD
(602) 280-8881 FAX

May 7, 2009

RECEIVED

MAY 08 2009

GUST ROSENFELD

Yarnell Water Improvement Association
Ms. Tammy Zudell
P.O. Box 727
Yarnell, AZ 85362

Re: Request for Obligation of Funds
RUS (ARRA) Program Funds: \$767,000 loan and \$533,000 grant

Dear Ms. Zudell:

Funds have been obligated for your loan and grant request and a copy of Form RD 1940-1, Request For Obligation of Funds, is enclosed. This letter serves as notification that the loan and grant request has been approved.

If you have any questions or need additional information, please call our office at (602) 280-8745.

Sincerely,

for DEBRA STEWART
Acting Community Programs Director

Enclosures

REQUEST FOR OBLIGATION OF FUNDS

INSTRUCTIONS-TYPE IN CAPITALIZED ELITE TYPE IN SPACES MARKED Complete Items 1 through 30 and applicable Items 31 through 43. See FMI.									
1. CASE NUMBER ST CO BORROWER ID 02 037 *****9720			LOAN NUMBER 91-01 grant 00-02			FISCAL YEAR 09 ARRA			
2. BORROWER NAME YARNELL WATER IMPROVEMENT ASSOCIATION			3. NUMBER NAME FIELDS 1 1, 2, or 3 from Item 2)						
			4. STATE NAME Arizona			5. COUNTY NAME 037 Yavapai			
GENERAL BORROWER/LOAN INFORMATION									
6. RACE/ETHNIC CLASSIFICATION 1-WHITE 4-HISPANIC 2-BLACK 5-A/PI 3-A/AN		7. TYPE OF APPLICANT 1-INDIVIDUAL 2-PARTNERSHIP 3-CORPORATION		4-PUBLIC BODY 5-ASSOC. OF FARMERS 6-ORG. OF FARM WORKERS 7-OTHER		8. COLLATERAL CODE 1-REAL ESTATE SECURED 2-REAL ESTATE AND CHATTEL 3-NOTE ONLY OR CHATTEL ONLY		9. EMPLOYEE RELATIONSHIP CODE 1-EMPLOYEE 2-MEMBER OF FAMILY 3-CLOSE RELATIVE 4-ASSOC.	
10. SEX CODE 1-MALE 2-FEMALE		3-FAMILY UNIT 4-ORGAN. MALE OWNED 5-ORGAN. FEMALE OWNED 6-PUBLIC BODY		11. MARITAL STATUS 1-MARRIED 2-SEPARATE		3-UNMARRIED (INCLUDES WIDOWED/DIVORCED)		12. VETERAN CODE 1-YES 2-NO	
14. DIRECT PAYMENT 3 (See FMI)		15. TYPE OF PAYMENT 1-MONTHLY 2-ANNUALLY 3-SEMI-ANNUALLY 4-QUARTERLY		16. FEE INSPECTION 1-YES 2-NO		17. INTEREST CREDIT 1-YES (PRO SPH ONLY) 2-NO		13. CREDIT REPORT 1-YES 2-NO	
18. COMMUNITY SIZE 1-10,000 OR LESS 2-OVER 10,000 (FOR SPH AND HPG ONLY)				19. DWELLING TYPE/USE OF FUNDS CODE (See FMI)					
COMPLETE FOR OBLIGATION OF FUNDS									
20. TYPE OF ASSISTANCE 168 (See FMI)		21. PURPOSE CODE 4		22. SOURCE OF FUNDS 2		23. TYPE OF ACTION 1-OBLIGATION ONLY 2-OBLIGATION/CHECK REQUEST 3-CORRECTION OF OBLIGATION			
24. TYPE OF SUBMISSION 1-INITIAL 2-SUBSEQUENT		25. AMOUNT OF LOAN \$ 767,000.00				26. AMOUNT OF GRANT \$ 533,000.00			
27. AMOUNT OF IMMEDIATE ADVANCE \$ 0.00		28. DATE OF APPROVAL MO DA YR 04-21-09		29. INTEREST RATE 3.7500%		30. REPAYMENT TERMS 40			
COMPLETE FOR SINGLE FAMILY HOUSING ONLY									
31. INCOME CATEGORY CODES 1-VERY LOW 3-MODERATE 2-LOW 4-ABOVE MODERATE			32. LOW INCOME LIMIT-MAX.			33. ADJUSTED FAMILY INCOME			
34. R.E. INSURANCE		35. R.E. TAXES 1st year		36. R.E. TAXES 2nd year		37. NOTE INSTALLMENT INELIGIBLE			
38. TYPE OF UNIT 1-FARM TRACT 2-NON-FARM TRACT									
COMPLETE FOR COMMUNITY PROGRAM AND CERTAIN MULTIPLE-FAMILY HOUSING LOANS									
39. PROFIT TYPE 3 1-FULL PROFIT 2-LIMITED PROFIT 3-NONPROFIT									
COMPLETE FOR EM LOANS ONLY					COMPLETE FOR CREDIT SALE-ASSUMPTION				
40. DISASTER DESIGNATION NUMBER (See FMI)					41. TYPE OF SALE 1-CREDIT SALE ONLY 2-ASSUMPTION ONLY 3-CREDIT SALE WITH SUB LOA 4-ASSUMPTION WIT SUBSEQUENT LOAN				
FINANCE OFFICE USE ONLY					COMPLETE FOR FP LOANS ONLY				
42. OBLIGATION DATE MO DA YR -- -- --					43. BEGINNING FARMER/RANCHER (See FMI)				

If the decision contained above in this form results in denial, reduction or cancellation of USDA assistance, you may appeal this decision and have a hearing or you may request a review in lieu of a hearing. Please use the form we have included for this purpose.

Position 2

ORIGINAL - Borrower's Case Folder COPY 1 - Finance Office COPY 2 -

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT

LETTER OF INTENT TO MEET CONDITIONS

Date 4/17/2009

TO: Rural Development
United States Department of Agriculture
230 N First Ave
Phoenix AZ 85003
(Office Address)

We have reviewed and understand the conditions set forth in your letter dated

April 17, 2009

It is our intent to meet all of them not later than

180 days (6 months)

We are also requesting that we be given the interest rate in effect at the time of loan approval or at the time of loan closing, whichever is lower. In other words, we want the lowest interest rate possible.

YARNELL WATER IMPROVEMENT ASSOCIATION

(Name of Association)

BY

Sammy Gudell

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0015. The time required to complete this information collection is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

EQUAL OPPORTUNITY AGREEMENT

This agreement, dated 4/17/2009 between

YARNELL WATER IMPROVEMENT ASSOCIATION

(herein called "Recipient" whether one or more) and the United States Department of Agriculture (USDA), pursuant to the rules and regulations of the Secretary of Labor (herein called the "Secretary") issued under the authority of Executive Order 11246, as amended, witnesseth:

In consideration of financial assistance (whether by a loan, grant, loan guaranty, or other form of financial assistance) made or to be made by the USDA to Recipient, Recipient hereby agrees, if the cash cost of construction work performed by Recipient or a construction contract financed with such financial assistance exceeds \$10,000--unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965.

1. To incorporate or cause to be incorporated into any contract for construction work, or modification thereof, subject to the relevant rules, regulations, and orders of the Secretary or of any prior authority that remain in effect, which is paid for in whole or in part with the aid of such financial assistance, the following "Equal Opportunity Clause":

During the performance of the contract, the contractor agrees as follows:

- (a) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited, to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the USDA setting forth the provisions of this nondiscrimination clause.
- (b) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- (c) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the USDA, advising the said labor union or workers' representative of the contractor's commitments under this agreement as required pursuant to section 202(3)- of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (d) The contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and all rules, regulations and relevant orders of the Secretary of Labor.
- (e) The contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, rules, regulations, and orders, or pursuant thereto, and will permit access to his books, records, and accounts by the USDA Civil Rights Office of Director, and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (f) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled, terminated, or suspended in whole or in part and the contractor may be declared ineligible for further Government Contracts of Federally Assisted construction contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor or as provided by Law.
- (g) The contractor will include the provisions of paragraph 1 and paragraph (a) through (f) in every subcontract or purchase order, unless exempted by the rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each such subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the USDA may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the USDA, the contractor may request the United States to enter into such litigation to protect the interest of the United States.

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a persons is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0570-0018. The time required to complete this information is estimated to average 10 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

2. To be bound by the provisions of the Equal Opportunity Clause in construction work performed by Recipient and paid for in whole or in part with the aid of such financial assistance.

3. To notify all prospective contractors to file the required 'Compliance Statement', Form RD 400-6, with their bids.

4. Form AD-425, Instructions to Contractors, will accompany the notice of award of the contract. Bid conditions for all nonexempt Federal and Federally assisted construction contracts require inclusion of the appropriate "Hometown" or "Imposed" plan affirmative action and equal employment opportunity requirements. All bidders must comply with the bid conditions contained in the invitation to be considered responsible bidders and hence eligible for the award.

5. To assist and cooperate actively with USDA and the Secretary in obtaining the compliance of contractors and subcontractors with the provisions of the Equal Opportunity Clause and the said rules, regulations, and orders, to obtain and furnish to USDA and the Secretary, Form AD-560, Certification of Nonsegregated Facilities, to submit the Monthly Employment Utilization Report, Form CC-257, as required and such other information as they may require the supervision of such compliance, and to otherwise assist USDA in the discharge of its primary responsibility for securing compliance.

6. To refrain from entering into any contract, or extension or other modification of a contract, subject to such Executive Order with a contractor debarred from government contracts or federally assisted construction contracts pursuant to Part II, Subpart D, of such Executive Order or to prior authority; and to carry out such sanctions and penalties for violation of the provisions of the Equal Opportunity Clause as may be imposed upon contractors and subcontractors by USDA or the Secretary pursuant to such Subpart D.

7. That if Recipient fails or refuses to comply with these undertakings, USDA may take any and all of the following actions: (a) cancel, terminate, or suspend said financial assistance in whole or in part; (b) refrain from extending any further assistance under the program involved until satisfactory assurance of future compliance has been received from Recipient; and (c) refer the case to the Office of Federal Contract Compliance Program, U.S. Department of Labor.

Signed by the Recipient on the date first written above.

(CORPORATE SEAL)

Attest:

Tammy Zudell, Secretary

YARNELL WATER IMPROVEMENT ASSOCIATION

Name of Corporate Recipient

By

Tammy Zudell

USDA
Form RD 400-4
(Rev. 3-97)

ASSURANCE AGREEMENT
(Under Title VI, Civil Rights Act of 1964)

FORM APPROVED
OMB No. 0575-0018

The YARNELL WATER IMPROVEMENT ASSOCIATION

(name of recipient)

P.O. BOX 727, YARNELL, ARIZONA 85362

(address)

("Recipient" herein) hereby assures the U. S. Department of Agriculture that Recipient is in compliance with and will continue to comply with Title VI of the Civil Rights Act of 1964 (42 USC 2000d et. seq.), 7 CFR Part 15, and Rural Housing Service, Rural Business-Cooperative Service, Rural Utilities Service, or the Farm Service Agency, (hereafter known as the "Agency") regulations promulgated thereunder, 7 C.F.R. §1901.202. In accordance with that Act and the regulations referred to above, Recipient agrees that in connection with any program or activity for which Recipient receives Federal financial assistance (as such term is defined in 7 C.F.R. §14.2) no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination.

1. Recipient agrees that any transfer of any aided facility, other than personal property, by sale, lease or other conveyance of contract, shall be, and shall be made expressly, subject to the obligations of this agreement and transferee's assumption thereof.
2. Recipient shall:
 - (a) Keep such records and submit to the Government such timely, complete, and accurate information as the Government may determine to be necessary to ascertain out/my compliance with this agreement and the regulations.
 - (b) Permit access by authorized employees of the Agency or the U.S. Department of Agriculture during normal business hours to such books, records, accounts and other sources of information and its facilities as may be pertinent to ascertaining such compliance.
 - (c) Make available to users, participants, beneficiaries and other interested persons such information regarding the provisions of this agreement and the regulations, and in such manner as the Agency or the U.S. Department of Agriculture finds necessary to inform such persons of the protection assured them against discrimination.
3. The obligations of this agreement shall continue:
 - (a) As to any real property, including any structure, acquired or improved with the aid of the Federal financial assistance, so long as such real property is used for the purpose for which the Federal financial assistance is made or for another purpose which affords similar services or benefits, or for as long as the Recipient retains ownership or possession of the property, whichever is longer.
 - (b) As to any personal property acquired or improved with the aid of the Federal financial assistance, so long as Recipient retains ownership or possession of the property.
 - (c) As to any other aided facility or activity, until the last advance of funds under the loan or grant has been made.
4. Upon any breach or violation this agreement the Government may, at its option:
 - (a) Terminate or refuse to render or continue financial assistance for the aid of the property, facility, project, service or activity.
 - (b) Enforce this agreement by suit for specific performance or by any other available remedy under the laws of the United States or the State in which the breach or violation occurs.

Rights and remedies provided for under this agreement shall be cumulative.

In witness whereof, YARNELL WATER IMPROVEMENT ASSOCIATION

(name of recipient)

on this

date has caused this agreement to be executed by its duly authorized officers and its seal affixed hereto, or, if a natural person, has hereunto executed this agreement.

(SEAL)

4/17/09

Recipient

Date

Attest:

Title

Title

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0570-0018. The time required to complete this information is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

U.S. DEPARTMENT OF AGRICULTURE

Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transactions

This certification is required by the regulations implementing Executive Order 12549, Debarment and Suspension, 7 CFR part 3017, Section 3017.510, Participants' responsibilities. The regulations were published as Part IV of the January 30, 1989, Federal Register (pages 4722-4733). Copies of the regulations may be obtained by contacting the Department of Agriculture agency offering the proposed covered transaction.

(BEFORE COMPLETING CERTIFICATION, READ INSTRUCTIONS ON REVERSE)

- (1) The prospective primary participant certifies to the best of its knowledge and belief, that it and its principals:
 - (a) are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal department or agency;
 - (b) have not within a three-year period preceding this proposal been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State or local) transaction or contract under a public transaction; violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property;
 - (c) are not presently indicted for or otherwise criminally or civilly charged by a governmental entity (Federal, State or local) with commission of any of the offenses enumerated in paragraph (1)(b) of this certification; and
 - (d) have not within a three-year period preceding this application/proposal had one or more public transactions (Federal, State or local) terminated for cause or default.
- (2) Where the prospective primary participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

YARNELL WATER IMPROVEMENT ASSOCIATION

Organization Name

PR/Award Number or Project Name

Name and Title of Authorized representative

Signature

Sammy Judell

4/17/2009

Date

U.S. DEPARTMENT OF AGRICULTURE

CERTIFICATION REGARDING DRUG-FREE WORKPLACE REQUIREMENTS (GRANTS) ALTERNATIVE I - FOR GRANTEE OTHER THAN INDIVIDUALS

This certification is required by the regulations implementing Sections 5151-5160 of the Drug-Free Workplace Act of 1988 (Pub. L. 100-690, Title V, Subtitle D; 41 U.S.C. 701 et seq.), 7 CFR Part 3017, Subpart F, Section 3017.600, Purpose. The regulations were published as Part II of the January 31, 1989 Federal Register (pages 4947-4952). Copies of the regulations may be obtained by contacting the Department of Agriculture agency offering the grant.

(BEFORE COMPLETING CERTIFICATION, READ INSTRUCTIONS ON REVERSE)

Alternative I

(A) The grantee certifies that it will provide a drug-free workplace by:

- (a) Publishing a statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;
- (b) Establishing a drug-free awareness program to inform employees about --
 - (1) The dangers of drug abuse in the workplace;
 - (2) The grantee's policy of maintaining a drug-free workplace;
 - (3) Any available drug counseling, rehabilitation, and employee assistance programs; and
 - (4) The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;
- (c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);
- (d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will --
 - (1) Abide by the terms of the statement; and

(2) Notify the employer of any criminal drug statute conviction for a violation

occurring in the workplace no later than five days after such conviction;

(e) Notifying the agency within ten days after receiving notice under subparagraph (d) (2)

from an employee or otherwise receiving actual notice of such conviction;

(f) Taking one of the following actions, within 30 days of receiving notice under subparagraph

(d) (2), with respect to any employee who is so convicted --

(1) Taking appropriate personnel action against such an employee, up to and including

termination; or

(2) Requiring such employee to participate satisfactorily in a drug abuse assistance or

rehabilitation program approved for such purposes by a Federal, State, or local health,

law enforcement, or other appropriate agency;

(g) Making a good faith effort to continue to maintain a drug-free workplace through

implementation of paragraphs (a), (b), (c), (d), (e) and (f).

B. The grantee shall insert in the space provided below the site(s) for the performance of work

done in connection with the specific grant.

Place of Performance (Street address, city, county, State, zip code)

YARNELL WATER IMPROVEMENT ASSOCIATION

Organization Name

PR/Award Number or Project Name

Name and Title of Authorized Representative

Signature

Lammy Gurdell

4/17/2009

Date

INSTRUCTIONS FOR CERTIFICATION

1. By signing and submitting this form, the grantee is providing the certification set out on pages 1 and 2.
2. The certification set out on pages 1 and 2 is a material representation of fact upon which reliance was placed when the agency determined to award the grant. If it is later determined that the grantee knowingly rendered a false certification, or otherwise violates the requirements of the Drug-Free Workplace Act, the agency, in addition to any other remedies available to the Federal Government, may take action authorized under the Drug-Free Workplace Act.

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT

APPLICANT CERTIFICATION
FEDERAL COLLECTION POLICIES FOR CONSUMER OR COMMERCIAL DEBTS

The Federal Government is authorized to check credit information about the applicant(s) including using the federal Credit Alert Interactive Voice Response System (CAIVRS) or its successors to check to see if the applicant(s) are delinquent or in default on a Federal debt.

The Federal Government is also authorized by law to take any or all of the following actions in the event your loan payments become delinquent or you default on your loan:

- Report your name and account information to a credit reporting agency, and the Credit Alert Interactive Voice Response System (CAIVRS).
- Assess interest and penalty charges for the period of time that payment is not made.
- Assess charges to cover additional administrative costs incurred by the government to service your account.
- Offset amounts to be paid to you from your Federal income tax refund.
- Offset amounts to be paid to you under other Federal Programs.
- Refer your account to a private collection agency to collect the amount due.
- Foreclosure on any security you have given for the loan.
- Pursue legal action to collect through the courts.
- Report any written off debt to the Internal Revenue Service as taxable income.
- If you are a current or retired Federal employee, take action to offset your salary, or civil service retirement benefits.
- Debar or suspend you from doing business with the Federal Government either as a participant or principal throughout the executive branch of the Federal Government for the period of debarment or suspension.
- Refer any debt that is delinquent to the Treasury Offset Program (TOP) in accordance with the Debt Collection Improvement Act of 1996.
- Refer any debt that is 180 days delinquent to the Treasury for cross servicing in accordance with the Debt Collection Improvement Act of 1996.
- Garnish your wages as allowed by the Debt Collection Improvement Act of 1996.

Any or all of these actions may be used to recover any debts owed when it is determined to be in the interest of the Government to do so.

CERTIFICATION: I/we have read and I/we understand the actions the Federal Government may take in the event that I/we fail to make my/our scheduled payments in accordance with the terms and conditions of my/our agreement. I/we understand that the above list is not a inclusive and that the Federal Government may deem additional actions necessary to collect should I/we become delinquent

(Signature - Individual(s))

(Date)

(Signature - Individual(s))

(Date)

(SEAL)

4/17/2009

Date

YARNELL WATER IMPROVEMENT ASSOCIAT

(Name of Applicant)

Tammy Zudell
(Signature of Authorized Entity Official)

(Title of Authorized Entity Official)

ATTEST:

(Signature of Attesting Official)

Tammy Zudell
Secretary

(Title of Attesting Official)

PO Box 727

(Address)

Yarnell AZ 85362

(City, State, and Zip Code)

CERTIFICATION FOR CONTRACTS, GRANTS AND LOAN

The undersigned certifies, to the best of his or her knowledge and belief, that:

1. No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant or Federal loan, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant or loan.
2. If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this Federal contract, grant or loan, the undersigned shall complete and submit Standard Form - LLL, "Disclosure of Lobbying Activities," in accordance with its instructions.
3. The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including contracts, subcontractors, and subgrants under grants and loans) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

YARNELL WATER IMPROVEMENT ASSOCIATION

by: Sammy Gudell

4/17/2009

Date

Name YARNELL WATER IMPROVEMENT ASSOCIATION		Address 22609 LOOKA WAY		YARNELL, ARIZONA 85362	
Applicant Fiscal Year From 01-09 To 12-09		County YAVAPAI		State (Including ZIP Code) ARIZONA 85362	

	20	20	20 09	20 10	First Full Year
	(1)	(2)	(3)	(4)	(5)
OPERATING INCOME					
1. METERED WATER REVENUES			\$238,893.00	\$328,319.00	\$331,603.00
2. OTHER WATER REVENUES			\$5,143.00	\$5,610.00	\$5,610.00
3.					
4.					
5. Miscellaneous					
6. Less: Allowances and Deductions	()	()	()	()	()
7. Total Operating Income (Add Lines 1 through 6)	\$0.00	\$0.00	\$244,036.00	\$333,929.00	\$337,213.00
OPERATING EXPENSES					
8. WATER OPERATIONS EXPENS			\$37,062.00	\$27,199.00	\$28,014.00
9. OUTSIDE SERVICES			\$9,985.00	\$13,285.00	\$13,685.00
10. INSURANCE EXPENSE			\$12,802.00	\$13,186.00	\$13,582.00
11. TAXES OTHER THAN INCOME			\$11,069.00	\$22,732.00	\$23,414.00
12. SALARY & WAGE EXPENSE			\$127,112.00	\$130,925.00	\$134,853.00
13. OFFICE EXPENSE			\$18,140.00	\$18,684.00	\$19,245.00
14. MISCELLANEOUS			\$2,953.00	\$3,042.00	\$3,134.00
15. Interest (RD)			\$18,667.00	\$29,224.00	\$28,816.00
16. Depreciation			\$36,014.00	\$76,420.00	\$76,420.00
17. Total Operating Expense (Add lines 8 through 16)	\$0.00	\$0.00	\$273,804.00	\$334,697.00	\$341,163.00
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	\$0.00	\$0.00	(\$29,768.00)	(\$768.00)	(\$3,950.00)
NONOPERATING INCOME					
19.					
20.					
21. Total Nonoperating Income (Add Lines 19 and 20)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
22. NET INCOME (LOSS) (Add Lines 18 and 21) (Transfer to Line A Schedule 2)	\$0.00	\$0.00	(\$29,768.00)	(\$768.00)	(\$3,950.00)

Budget and Projected Cash Flow Approved by Governing Body

Attest: _____ Secretary _____ Date _____

Appropriate Official _____ Date _____

PROJECTED CASH FLOW

	20	20	20 09	20 10	First Full Year
A. Line 22 from Schedule I Income (<i>Loss</i>)	\$0	\$0	(\$29,768)	(\$768)	(\$3,950)
<i>Add</i>					
B. Items in Operations not Requiring Cash:					
1. Depreciation (<i>Line 16, Schedule 1</i>)	\$0	\$0	\$36,014	\$76,420	\$76,420
2. Others: _____					
C. Cash Provided from:					
1. Proceeds from RD loan/grant			\$1,300,000		
2. Proceeds from others					
3. Increase (<i>Decrease</i>) in Accounts Payable, Accruals and other Current Liabilities					
4. Decrease (<i>Increase</i>) in Accounts Receivable, inventories and Other Current Assets (<i>Exclude Cash</i>)					
5. Other: <u>SEE ATTACHED SCHEDULE 1</u>			(\$7,130)	\$8,442	(\$1,349)
6. _____					
D. Total all A, B and C Items	\$0	\$0	\$1,299,116	\$84,094	\$71,121
E. <i>Less</i> : Cash Expended for:					
1. All Construction, Equipment and New Capital Items (<i>Loan and grant funds</i>)			\$1,010,138		
2. Replacement and Additions to Existing Property, Plant and Equipment			\$3,451	\$3,556	\$4,663
3. Principal Payment RD Loan					
4. Principal Payment Other Loans			\$273,109	\$4,615	\$2,063
5. Other: _____					
6. Total E 1 through 5	\$0	\$0	\$1,286,698	\$8,171	\$6,726
<i>Add</i>					
F. Beginning Cash Balances			\$811	\$13,229	\$89,152
G. Ending Cash Balances (<i>Total of D minus E 6 plus F</i>)	\$0	\$0	\$13,229	\$89,152	\$2,153,547
Item G Cash Balances Composed of:					
Construction Account					
Revenue Account					
Debt Payment Account					
O&M Account		\$811	\$11,333	\$83,464	\$144,067
Reserve Account			\$1,896	\$5,688	\$9,480
Funded Depreciation Account					
Others: _____					
Total - Agrees with Item G	\$0	\$811	\$13,229	\$89,152	\$153,547

5

YARNELL WATER IMPROVEMENT ASSOCIATION

EXHIBIT 5

**ENGINEERING REPORT,
AMENDED JANUARY 26, 2009**

PRELIMINARY ENGINEERING REPORT
WATER SYSTEM IMPROVEMENTS
YARNELL WATER IMPROVEMENT ASSOCIATION

Prepared for:

Yarnell Water Improvement Association

P. O. Box 727
22609 Looka Way
Yarnell, AZ 85362

(928)427-3321

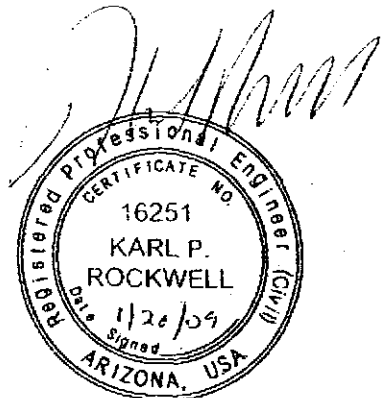
Prepared by:

Claycomb / Rockwell Associates, Inc.

8991 E Valley Road
Prescott Valley, AZ 86314
(928)772-0745

CRA Job No. 08-15

October 2008
Amended November 13, 2008
Amended January 26, 2009

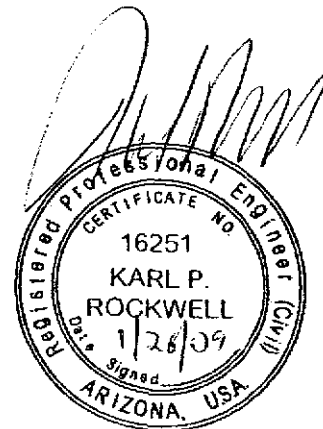


EXPIRES: 3/31/2010

**PRELIMINARY ENGINEERING REPORT
WATER SYSTEM IMPROVEMENTS
YARNELL WATER IMPROVEMENT ASSOCIATION**

TABLE OF CONTENTS

1.	GENERAL	1
2.	PROJECT PLANNING AREA	1
3.	EXISTING FACILITIES	3
4.	NEED FOR PROJECT	6
5.	ALTERNATIVES CONSIDERED	7
6.	SELECTION OF AN ALTERNATIVE	13
7.	PROPOSED PROJECT (RECOMMENDED ALTERNATIVE)	14
8.	CONCLUSION AND RECOMMENDATION	16
	APPENDIX	17



EXPIRES: 3/31/2010

**PRELIMINARY ENGINEERING REPORT
WATER SYSTEM IMPROVEMENTS
YARNELL WATER IMPROVEMENT ASSOCIATION**

1. GENERAL

Yarnell is an unincorporated town in Yavapai County, Arizona with a year 2000 census population of 675. Water is supplied to the town by the Yarnell Water Improvement Association which was established in 1975. Prior to that date the town was served by a number of smaller local water systems with generally inadequate well water supplies. The Yarnell Water Improvement Association obtained a USDA Farmers Housing Authority loan and grant to finance the construction of a centralized water distribution system and storage tanks, drill new wells with greater yield, and construct a 4.6 mile transmission line from the wells to the system. Water was also supplied from the transmission main to a separate water system in the Peebles Valley area. The system was state of the art when constructed in 1975. Few additions have been made to the system since its initial construction. The system is now over 30 years old and maintenance problems are beginning to plague portions of the system, particularly the pressure reducing valve stations and the fire hydrants. The control system is now outdated and a backup power supply does not exist for the wells and booster pumps. The Association has a balance of about \$268,000 on existing loans.

This Preliminary Engineering Report has been prepared in accordance with Rural Utilities Service Bulletin 1780-2 as the basis for obtaining funding from USDA Rural Development for improvements to the system and to refinance the balance of the original USDA loan.

2. PROJECT PLANNING AREA

The project planning area extends from the area of the current well field in Peebles Valley to the Glen Ilah area, a distance of about 5 miles. Three Service Areas are contained within this distance, being the Peebles Valley, Yarnell and Glen Ilah Service Areas. The Service Areas contain about 0.12 square miles, 6.37 square miles and 0.87 square miles respectively, for a total of about 7.37 square miles. Not all of the area between the well field and Glen Ilah is contained in the Service Areas. The boundaries of the Service Areas are set by the Association's franchise.

a. Location.

The Project Planning Area is shown on Exhibit 1, Project Planning Area Map, located in the Appendix. Yarnell is located in Yavapai County in central Arizona, about 30 miles south of Prescott and 80 miles northwest of Phoenix. The town area, including Glen Ilah is mountainous, with the elevation of residences served ranging from about 4690 feet msl to 4900

feet msl. The Peebles Valley area is quite flat. The well field is at elevation 4460 feet msl and the Peebles Valley Service Area varies from 4470 to 4480 feet msl.

b. Environmental Resources Present

Agricultural use in the mountainous portions of the planning area consists of livestock grazing. Groundwater within the mountainous area is very limited. The area is very picturesque, with large boulder outcrops and areas of pine and juniper trees.

Irrigated pasture land and farming occur in the Peebles Valley area. Peebles Valley rests atop a significant groundwater aquifer. The water system installed by the Yarnell Water Improvement Association in 1975 tapped this aquifer and piped the water to the Association's service areas. The aquifer has been heavily pumped for both domestic and agricultural purposes since that time. The Draft Preliminary Water Resources Evaluation for Yarnell Water Improvement Association prepared by Miller Brooks Environmental, Inc., in 2003 concluded that the aquifer is in a state of significant overdraft, resulting in a continually dropping water table.

The existing well field, pump house and blending tank are all located in the FEMA delineated floodplain of Model Creek.

The system improvements anticipated by this Preliminary Engineering Report are limited to repair/replacement of pressure reducing stations and fire hydrants, lining of tanks, installation of a backup power supply for the wells, minor piping revisions within existing streets and installing a modern control system. Correspondence with Leonard Gradillos, Community Programs Director/Environmental Coordinator for Rural Development indicated that a full Environmental Report may not be necessary. A copy of the email correspondence, dated March 28, 2008, is included in the Appendix. An Environmental Report is currently not anticipated and has therefore not been prepared pending a decision by Rural Development.

c. Growth Areas and Population Trends.

The original engineering report for the creation of Yarnell Water Improvement Association (YWIA) estimated the population growth to be 12.5% per 10-year period. The report projected an increase in customers from 368 in 1972 to 552 in 2012. The Association currently has a total of 617 meters, 528 of which are currently active. The estimates held very close to the actual growth. The Yavapai County General Plan states that from 1970 to 1980 the county had seen an average increase of 84% and from 1990 to 2000 it had seen an average increase of 56%. These averages can vary greatly between different areas of the county. Based on this information an annual growth rate of 10% will be used for calculations.

3. EXISTING FACILITIES

a. Location Map.

The location of the well, pump house, storage tanks, transmission pipeline, as well as the distribution system are shown on the Water System Map, Exhibit 2 located in the Appendix. The exhibit also shows pipe sizes, check valves, Pressure Reducing Valve (PRV) locations and fire hydrant locations.

b. History.

The current Yarnell Water Improvement Association (YWIA) was established in 1975 with the installation of two wells with the capability of pumping 200 gallons per minute (gpm) and a pump house located in Peeples Valley. An 8" pressure main was installed along State Route 89, which transfers the water to two 250,000 gallon storage tanks installed on the hillside above Yarnell. The previous water system services were incorporated into the new system, but all new distribution mains were installed by the water association. From the initial construction to the present, the distribution system has been extended to accommodate population growth.

c. Condition of Facilities.

The well located in Peeples Valley was originally designed to pump 200 gallons per minute (gpm). The current rate pumped during the month with the highest demand was estimated to be 92 gpm. The wells are able to meet current demand, but the steadily decreasing water table in the Peoples Valley aquifer may cause the well yield to decrease in the future. The wells are 160 and 190 feet deep. The well pumps were replaced in 2004.

Water from the wells is discharged into a blending tank where it mixes with chlorine and achieves the necessary contact time before being pumped into the transmission line by booster pumps. There is no record of the booster pumps being replaced.

The water is transmitted from the well located in Peeples Valley to the storage tanks located in Yarnell by the means of an 8" inch pipeline. From the information provided it appears that the transmission line is still in good condition. A small distribution system fed through a pressure reducing valve (PRV) station serves the Peeples Valley Service Area from this transmission pipeline.

The water that is pumped from the well is feed into two 250,000 gallon storage tanks. This creates the hydraulic head to supply water at various pressures though out the system. One of the storage tanks has been

recently relined to prevent deterioration of the tank. The second storage tank has reached a point where it also needs to be relined.

The existing distribution system consists of 8", 6" and 4" lines in various loop configurations. This results in some long service legs being supplied from only one point. The condition of the pipes seems to be relatively good for a system of this age. The majority of repairs reported by the Association are related to service lines rather than the main lines.

The existing system utilizes six PRV's to create three different pressure zones in the system. The PRV's seem to be set at acceptable pressures based on information provided, although the high and low pressures in each of the zones in Yarnell and Glen Ilah are somewhat outside optimal values. Maintenance of the PRV's is a continual problem for the staff. While several have been rebuilt, they continue to function improperly. The vaults were not constructed with positive drainage and water often accumulates in them causing corrosion and decay to the valves, pipes and fittings in the vaults. It is often necessary to pump the vaults out to perform maintenance work. The piping in the vaults does not allow for easy removal of components.

Many of the original fire hydrants throughout the system have become difficult or impossible to operate and have started to leak. The Association has replaced 7 hydrants recently with compression type hydrants that they wish to use in the future.

The existing telemetry system is the original analog system that was installed in 1975 and has created problems due to its age and design.

An ADEQ inspection performed on February 7, 2007 determined the Yarnell Water Improvement Association was in compliance with ADEQ requirements with minor deficiencies that have been corrected.

d. Financial Status of any Existing Facilities.

The YWIA charges an installation, monthly minimum based on the size of the meter, and usage charge. Below are the monthly minimum charges and the installation charges.

<u>Meter Size</u>	<u>Minimum Monthly Charge</u>	<u>Installation</u>
5/8" - 3/4"	\$21.00	\$520.00
3/4"	\$21.00	\$600.00
1"	\$35.00	\$690.00
1 1/2"	\$70.00	\$935.00
2"	\$112.00	\$1,525.00
3"	\$210.00	\$2,080.00
4"	\$350.00	\$3,175.00
6"	\$700.00	\$5,680.00

Below is the monthly usage rate schedule based on the amount of water usage recorded by a meter.

Per 1,000 Gallons up to 5,000	\$2.50
Per 1,000 Gallons from 5,001 to 10,000	\$3.50
Per 1,000 Gallons from 10,001 to 50,000	\$4.75
Per 1,000 Gallons in excess of 50,000	\$6.00
Standpipe/Bulk water per 1,000 Gallons	\$10.00

The list below shows additional fees and service charges.

Establishment	\$40.00
Establishment (after hours)	\$60.00
Reconnection (delinquent)	\$40.00
Meter Test (if correct)	\$30.00
Deposit	\$70.00
Deposit Interest	6%
Reestablishment (within 12 months)	\$21.00/month
NSF Check	\$25.00
Deferred Payment (per month)	0.00%
Meter Reread (if correct)	\$10.00
Late Fee	1.5%

The Table below shows the average monthly usage groups

Usage Group (gal.)	Number of Accounts	Usage (gal.)	% of Usage	% of Sales
Over 50,000	2	130,350	5.46%	3.34%
40,001 – 50,000	2	78,867	3.09%	1.89%
30,001 – 40,000	3	84,800	3.11%	2.02%
20,001 – 30,000	9	210,942	8.33%	5.28%
10,001 – 20,000	37	507,900	20.35%	13.18%
8,001 – 10,000	18	164,158	6.87%	4.51%
6,001 – 8,000	36	247,050	11.17%	7.80%
4,001 – 6,000	62	308,258	14.32%	11.40%
2,001 – 4,000	129	382,292	19.25%	20.64%
1,000 – 2,000	163	141,633	7.34%	22.15%
Zero Usage	68	0	0.00%	7.81%
Total Meters	528	2,256,250	100%	100%

The following revenues have been generated by the water system fees and charges for the past 5 years, based on figures supplied by the Association:

2007	\$ 237,556
2006	\$ 230,712
2005	\$ 220,335
2004	\$ 222,075
2003	\$ 223,037

The operating and maintenance direct costs are identified in the Association's Profit and Loss statement. The statement does not segregate maintenance costs that are normal from those related to repairs to the fire hydrants and PRV's. Staff labor costs are not included in the tabulated operation and maintenance line items. Over the past five years the Operating and Maintenance Costs ranged from \$8,160 to \$23,592 per year, with the average annual cost of \$13,833.

In the last few years the revenues from the water system has not been sufficient to cover the normal operating and maintenance costs of the system. Therefore the YWIA has needed to use some of the funds that are held in reserve to cover costs. YWIA currently has \$12,979.58 held in a reserve account.

The YWIA currently has two outstanding loans. These loans were taken out to provide the capital needed for the initial construction of the system. The outstanding loans are as follows:

<u>Year Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Balance</u>	<u>Date of Maturity</u>
1974	\$769,000	5.0%	\$238,194.35	2014
1975	\$100,000	5.0%	\$30,737.21	2015

4. NEED FOR PROJECT

a. Health and Security.

When the PRV's malfunction it may create unacceptably high or low pressures in the distribution system. Fire flows may not be available when needed. The vaults filling with water may create cross connections. Repairing or replacing the PRV's will eliminate these problems.

Corrosion inside the tanks will cause deterioration of the water quality delivered to the customers. Lining of the tanks will correct this situation.

Failure of the current telemetry system could result in the tanks not being properly filled causing shortages of water to the system or wasteful overflow of the tanks. Replacement of the existing aging system with a modern telemetry system would add significantly to the reliability of the system operation.

The faulty fire hydrants could potentially mean that fire flows are not available when needed. Leaky hydrants waste the limited water supply of the Association. Replacement of the hydrants would solve both of these situations.

Interruption of electrical power to the well and booster pumps means that water cannot be pumped into the system. The size of the storage tanks is not sufficient to provide fire flow storage and normal operation if power is off for a sustained period. A backup power supply is needed to provide the needed degree of security.

b. System O&M.

Operating and Maintenance costs for the system escalate with the aging of the system. While the pipelines themselves are in relatively good condition, the pressure reducing valve stations, fire hydrants and telemetry system are requiring much more staff time and expense than reasonable. Relining of the tanks is a timely maintenance operation to extend the life expectancy of the tanks.

c. Growth.

The number of customers served by the Association has risen to approximately the level projected by the original Preliminary Engineering Report. The well system is able to meet the demands of the customers during peak summer periods using one well at a time. The only time both wells are pumped is when some unusual circumstance, such as a line break, has caused the water level to drop to an unacceptable level in the storage tank. The proposed improvements are not in response to present or projected future growth, but are needed to maintain the integrity of the system. The system should be able to meet the projected growth without significant modifications unless the well yields diminish

5. **ALTERNATIVES CONSIDERED**

The following components are included in the proposed improvements to the Yarnell Water Improvement Association system. These components have been identified by the staff and board as necessary to improve the operation and reduce maintenance costs of the system. The improvements are not intended to expand

the system, but to make it function more satisfactorily for the customers. The improvements will improve the security of the system by providing a backup power supply at the well site and reducing fluctuations in the pressure due to malfunctions of the PRV's. Replacing fire hydrants will insure that hydrants operate properly when needed.

1. Replace PRV stations that do not maintain the proper downstream pressure and are a source of continual maintenance time and expense.
2. Replace existing telemetry system that is difficult to repair due to outdated components with modern equipment.
3. Provide a backup power supply at the well site to allow continued operation during power outages.
4. Replace existing fire hydrants that are often hard or impossible to operate with compression type hydrants.
5. Reline one (1) 250,000 gallon storage tank that is corroding due to deterioration of the original lining.
6. Reline the 40,000 chlorine blending tank at the well site that is corroding due to deterioration of the original lining.
7. Connect the two 6" water mains that pass through the intersection of Westward Way and Ridge Way. These mains were not connected during construction of the original system as it was intended for them to be on different pressure zones. The system now operates with both lines on the same zone so a connection would eliminate what are in effect two dead end lines.
8. Decommission two existing pump stations in the Glen Ilah service area that have never been operated. Determine if there is salvage value to any of the components and sell or reuse any useable items.

Alternatives relate to how each one of these items are handled, ranging from not doing the item to fully completing the work.

1. PRV STATIONS.

a. Alternate A, Repair PRV Stations.

This alternative would involve continuing to repair the PRV stations as they fail or on a regular basis. The advantage of this approach is that the cost is spread out over a period of time. The primary disadvantage is that the valves themselves may be beyond repair

and it does not solve the problem of water accumulating in the vaults. The process is very time consuming for the staff.

b. Alternate B, Replace PRV Stations.

This alternative does not actually involve replacing the vault itself, but rather replacing the primary piping in the vault, providing the necessary connections for easy maintenance in the future, and installing drains in the vaults using pipes sloping to daylight or sump pumps, so the vaults will not accumulate water during period of high water table or surface runoff.

2. TELEMETRY SYSTEM

a. Alternate A, Repair Telemetry System.

This alternative would involve continuing to repair the telemetry system. The difficulty with this approach is that parts for the outdated system are becoming hard to obtain and repairs are frequently needed. The advantage is that costs are spread out over a period of time, but it may become impossible to continue repairing the system

b. Alternate B, Replace Telemetry System.

Telemetry systems have vastly improved since the time of installation of the original system. A new modern system would be far more reliable and easy to maintain than the existing system.

3. BACKUP POWER SUPPLY

a. Alternate A, Gas or Diesel Generator.

This alternative would involve installing a conventional gasoline, natural gas or diesel powered generator at the well site that would kick in to operate the pumps in case of a power outage.

b. Alternate B, Solar Backup Power Supply.

This alternative would involve installing a photovoltaic solar power panel array at the well site located on the eastern side of the property. The electrical panel will have to be modified to accept the additional power source and will be designed to be a grid tied system. Sizing of the system will be determined by the selection of a system that will run the pumps and use the grid power to handle the motor start-up surge, or a system that is sized to handle the motor start-up surge and then provide power back to the grid while the pumps are running. The solar power supply has a very high

initial cost but rebates are available for solar power systems. It might be possible to generate revenue by selling power to APS during periods when the system is not needed to run the pumps. Maintenance costs to assure that power is available when needed will be involved. While solar power generation is an emerging source of power, the technical aspects of applying it to this type of system are not commonly employed.

4. REPLACE EXISTING FIRE HYDRANTS

a. Alternate A, Continue to Repair existing Hydrants.

This alternative would involve continuing to repair the existing hydrants. This is a very labor intensive alternative, requiring excessive time by the staff. The type of hydrant is not what the Association wants to use as the system standard.

b. Alternate B, Replace Existing Hydrants with Compression Hydrants.

The Association staff has found that compression type hydrants are more reliable than the fork type hydrants originally installed. They have been gradually replacing the hydrants that are leaking or hard to operate with compression hydrants that will become the standard for the system. Using a standard hydrant will simplify stocking of repair parts.

5. RELINE 250,000 GALLON STORAGE TANK

a. Alternate A, Do not Reline Tank.

Not relining the tank will have no front end costs but will result in significantly reduced life expectancy for the tank. Water quality will also be impaired due to rust in the tank transferring to the water supply.

b. Alternate B, Reline Tank.

A thorough relining system applied to the interior of the storage tank, including sand blasting to remove the existing lining and corrosion, would significantly increase the lifespan of the tank. During the relining of the tank the storage capacity of the system would be reduced by one half. It is therefore recommended that the relining be done during the winter months when the system demand is lowest.

6. RELINE 40,000 GALLON BLENDING TANK

a. Alternate A, Do not Reline Blending Tank.

Not relining the tank will have no front end costs but will result in significantly reduced life expectancy for the tank. Water quality will also be impaired due to rust in the tank transferring to the water supply.

b. Alternate B, Reline Tank.

A thorough relining system applied to the interior of the blending tank, including sand blasting to remove the existing lining and corrosion, would significantly increase the lifespan of the tank.

7. CONNECT DISTRIBUTION LINE IN INTERSECTION OF WESTWARD WAY AND RIDGE WAY

a. Alternate A, Do not Connect lines.

If the lines are not connected the system will continue to exist where a shutdown in either line can take numerous customers out of service.

b. Alternate B, Connect the Lines.

The installation of about 50 feet of pipe and 5 valves will allow far better operation of the system in the event of the need to shut down portions of the system for repairs. The installation will be within existing public ROW and surfaced streets so no additional property acquisition will be required and no adverse environmental impacts will result.

8. DECOMMISSION GLEN ILAH PUMP STATIONS

a. Alternate A, Do Not Decommission Pump Stations.

If the pump stations remain in place they will continue to deteriorate and require periodic minor maintenance.

b. Decommission Pump Stations.

Decommissioning of the pump stations would involve removing the pumps, hydro-pneumatic tank, piping and control system. The wooden buildings could then be dismantled or moved to some other site. The components might have salvage value.

a. Cost Estimates

The following table presents the engineers opinion of probable construction cost, non-construction cost, and annual operation and maintenance cost of each alternative item. The costs are based on a normal competitive bidding process and all improvements being done as part of a single project. The Association would like to do the hydrant replacement over a number of years using staff personnel for much of the work. This approach is not factored into the figures given in the table.

ENGINEERS OPINION OF PROBABLE CONSTRUCTION COSTS, NON-CONSTRUCTION COSTS, AND O&M COSTS

	Number	Unit Cost Construction	Annual Unit O&M	Total Cost Construction	Total Annual O&M
PRV STATIONS					
Repair	6	\$0.00	\$5,000.00	\$0.00	\$30,000.00
Replace	6	\$25,000.00	\$100.00	\$150,000.00	\$600.00
TELEMETRY SYSTEM					
Repair	1	\$0.00	\$5,000.00	\$0.00	\$5,000.00
Replace	1	\$90,000.00	\$200.00	\$90,000.00	\$200.00
BACKUP POWER SUPPLY					
Gas/Diesel	1	\$25,000.00	\$300.00	\$25,000.00	\$300.00
Solar	1	\$350,000.00	\$2,000.00	\$350,000.00	\$2,000.00
FIRE HYDRANTS					
Repair	70	\$0.00	\$500.00	\$0.00	\$35,000.00
Replace	70	\$5,000.00	\$25.00	\$350,000.00	\$1,750.00
250,000 GAL. TANK					
Do nothing	1	\$0.00	\$200.00	\$0.00	\$200.00
New Lining	1	\$50,000.00	\$200.00	\$50,000.00	\$200.00
40,000 GAL. TANK					
Do nothing	1	\$0.00	\$200.00	\$0.00	\$200.00
New Lining	1	\$30,000.00	\$200.00	\$30,000.00	\$200.00
CONNECTION LINE					
Do nothing	1	\$0.00	\$0.00	\$0.00	\$0.00
Construct	1	\$25,000.00	\$0.00	\$25,000.00	\$0.00
DECOMMISSION PUMP STATIONS					
Do nothing	2	\$0.00	\$500.00	\$0.00	\$1,000.00
Decommission	2	-\$5,000.00	\$0.00	-\$10,000.00	\$0.00
Total Construction Cost for Recommended Alternatives					\$710,000.00
Engineering Costs (10.0%)					\$ 71,000.00
Construction Inspection Costs (4.2%)					\$ 29,820.00
Construction Administration Costs (5.0%)					\$ 35,500.00
Legal Costs (2.5%)					\$ 17,750.00
Construction Contingency (10.0%)					\$ 71,000.00
Outstanding Loan Balance 1 (Refinance)					\$238,194.35
Outstanding Loan Balance 2 (Refinance)					\$ 30,737.21
TOTAL COST OF RECOMMENDED PROJECT					\$1,204,501.56

6. SELECTION OF AN ALTERNATIVE

The following table presents the engineers opinion of the 30-year life cycle cost of the various project alternatives. The costs are based on a normal competitive bidding process and all improvements being done as part of a single project. A four percent (4%) annual rate of inflation was used in the cost analysis.

	Number	30 Year Present Worth (Each)	Total Present Worth Cost
PRV STATIONS			
Repair	6	\$86,460.00	\$518,760
Replace	6	\$26,730.00	\$160,375
TELEMETRY SYSTEM¹			
Repair	1	\$86,460.00	\$86,460
Replace	1	\$93,460.00	\$93,460
BACKUP POWER SUPPLY			
Gas/Diesel	1	\$30,190.00	\$30,190
Solar	1	\$384,585.00	\$384,585
FIRE HYDRANTS			
Repair	67	\$8,650.00	\$579,285
Replace	67	\$5,435.00	\$363,945
250,000 GAL. TANK²			
Do nothing	1	\$3,460.00	\$3,460
New Lining	1	\$53,460.00	\$53,460
40,000 GAL. TANK²			
Do nothing	1	\$3,460.00	\$3,460
New Lining	1	\$33,460.00	\$33,460
CONNECTION LINE³			
Do nothing	1	\$0.00	\$0.00
Construct	1	\$25,000.00	\$25,000
DECOMMISSION PUMP STATIONS			
Do nothing	2	\$8,650.00	\$17,295
Decommission	2	-\$5,000.00	\$10,000

¹ The replace option was chosen due to the increasing difficult to find parts to repair the existing system.

² The Do Nothing option does not include the cost of replacing the tank which may be necessary within the 30 year time frame.

³ The construction of the connection line with improve the reliability of the system therefore it was selected.

These selected components have been identified by the staff and board as necessary to improve the operation and reduce maintenance costs of the system.

7. PROPOSED PROJECT (RECOMMENDED ALTERNATIVE)

a. Recommended Alternative:

The following components are included in the recommended alternative to the Yarnell Water Improvement Association system.

1. Replace PRV stations that do not maintain the proper downstream pressure and are a source of continual maintenance time and expense.
2. Replace existing telemetry system that is difficult to repair due to outdated components with modern equipment.
3. Provide a backup power supply at the well site to allow continued operation during power outages.
4. Replace existing fire hydrants that are often hard or impossible to operate with compression type hydrants.
5. Reline one (1) 250,000 gallon storage tank that is corroding due to deterioration of the original lining.
6. Reline the 40,000 chlorine blending tank at the well site that is corroding due to deterioration of the original lining.
7. Connect the two 6" water mains that pass through the intersection of Westward Way and Ridge Way. These mains were not connected during construction of the original system as it was intended for them to be on different pressure zones. The system now operates with both lines on the same zone so a connection would eliminate what are in effect two dead end lines.
8. Decommission two existing pump stations in the Glen Ilah service area that have never been operated. Determine if there is salvage value to any of the components and sell or reuse any useable items.

b. Total Project Cost Estimate:

The following table presents the engineers opinion of probable construction cost, non-construction cost, and annual operation and maintenance cost of each of the selected alternative items.

	Number	Unit Cost Construction	Annual Unit O&M	Total Cost Construction	Total Annual O&M
PRV STATIONS					
Replace	6	\$25,000.00	\$100.00	\$150,000.00	\$600.00
TELEMETRY SYSTEM					
Replace	1	\$90,000.00	\$200.00	\$90,000.00	\$200.00
BACKUP POWER SUPPLY					
Gas/Diesel	1	\$25,000.00	\$300.00	\$25,000.00	\$300.00
FIRE HYDRANTS					
Replace	70	\$5,000.00	\$25.00	\$350,000.00	\$1,750.00
250,000 GAL. TANK					
New Lining	1	\$50,000.00	\$200.00	\$50,000.00	\$200.00
40,000 GAL. TANK					
New Lining	1	\$30,000.00	\$200.00	\$30,000.00	\$200.00
CONNECTION LINE					
Construct	1	\$25,000.00	\$0.00	\$25,000.00	\$0.00
DECOMMISSION PUMP STATIONS					
Decommission	2	-\$5,000.00	\$0.00	-\$10,000.00	\$0.00

Total Construction Cost for Recommended Alternatives	\$710,000.00
Engineering Costs (10.0%)	\$ 71,000.00
Construction Inspection Costs (4.2%)	\$ 29,820.00
Construction Administration Costs (5.0%)	\$ 35,500.00
Legal Costs (2.5%)	\$ 17,750.00
Construction Contingency (10.0%)	\$ 71,000.00
Outstanding Loan Balance 1 (Refinance)	\$238,194.35
Outstanding Loan Balance 2 (Refinance)	\$ 30,737.21

TOTAL COST OF RECOMMENDED PROJECT \$1,204,501.56

c. Annual Operating Budget

1. Income:

The proposed rate schedule will be derived from the existing rate schedule which is shown previously in this report. A four percent annual increase will be added to the rate schedule to account for inflation. From this the water associations' income can be projected in 10 year increments for the 30 year life of the system. The following table represents the revenue generated from existing users and the predicted future users.

Existing User Revenue	
Year	Revenue
10	\$351,630
20	\$520,510
30	\$770,490

Projected Future User Revenue	
10	\$331,535
20	\$1,215,320
30	\$3,389,185

2. Operations and Maintenance (O&M) Costs:

The current operation and maintenance cost for the existing range from \$8,160 to \$23,592 per year, with the five year average annual cost of \$13,833. With the selected improvements that amount will be reduced to approximately \$6000 annually.

3. Debt Repayments:

The YWIA currently has two outstanding loans. These loans were taken out to provide the capital needed for the initial construction of the system. The remaining balances of the loans are \$238,194.35 and \$30,737.21. Part of the new RUS grant would be used to repay the associations existing loans and the remainder would be used for the selected system improvements.

4. Reserves:

YWIA currently has \$12,979.58 held in a reserve account. This account is used for small capital investments, operating and maintenance costs of the system when other sources of capital are not available.

8. **CONCLUSION AND RECOMMENDATION**

CRA has concluded that the Yarnell Water Improvement Association is operating an aging water distribution system that utilizes some out of date technology. It is CRA's recommendation that the USDA approve the YWIA's request for a grant so it may repay its existing loans and make improvements to the existing system. The previously listed improvements would increase the reliability of the system while decreasing the annual operating and maintenance cost. This would allow the YWIA to better serve its users and operate more successfully.

APPENDIX

Pam Passmore

From: Leonard.Gradillas@az.usda.gov
Sent: Friday, March 28, 2008 10:15 AM
To: William Allen
Cc: Debra.Stewart@az.usda.gov
Subject: RE: Yarnell Water - Environmental Report

Mr. Allen:

Your question in your e-mail was referred to me for a response:

If the scope of this project is limited to just the replacement of valves, replacement of existing fire hydrants and no new excavation activity will occur, we can then limit the level of the environmental assessment to a categorical exclusion. If that is the case, there is no need for you to submit a separate environmental report other than to provide the details of the project in your preliminary engineering report (PER). Rural Development as the funding agency would then complete the environmental assessment based on information in your PER. If however, the scope of the project involves new excavation activity for additional fire hydrants or rerouting of water lines, a new water source etc. then a complete environmental report as specified in RD RUS Bulletin 1794-A 602 would need to be submitted along with the PER.

Call me if you have any further questions

LEONARD GRADILLAS
 Community Programs Director/ Environmental Coordinator
 USDA Rural Development
 Phoenix, Az.

602-280-8747

From: Stewart, Debra - Phoenix, AZ
Sent: Friday, March 28, 2008 9:30 AM
To: Gradillas, Leonard - Phoenix, AZ
Subject: FW: Yarnell Water - Environmental Report

From: William Allen [mailto:WilliamA@clayrock.com]
Sent: Thursday, March 27, 2008 2:09 PM
To: Stewart, Debra - Phoenix, AZ
Cc: ywia@w3az.net; Elmer Claycomb
Subject: Yarnell Water - Environmental Report

Debra,

Due to the fact that this project involves the replacement of existing valve vaults

9/16/2008

and fire hydrants would we be able to submit a brief EA and EIS in our report. I do not foresee any waterway or contamination impact in the execution of these repairs. Can you tell us what our NEPA Level of Review will be?

Thanks,
Bill

William Allen

williama@clayrock.com

Claycomb/Rockwell Associates

8991 E. Valley Road

Prescott Valley, AZ 86314

928-772-0745 phone

928-772-2008 fax

**Providing Civil Engineering & Surveying Services
Throughout Yavapai County and Arizona**

9/16/2008

CLAYCOMB / ROCKWELL ASSOCIATES, INC.

8991 E. Valley Road
Prescott Valley, AZ 86314-6123
(928) 772-0745 • FAX (928) 772-2008
Email: clayrock@clayrock.com

JOB NAME Garrett Water System Improv JOB NO# 0817
SUBJECT Life Cycle Cost Calculation
SHEET _____ OF _____ SCALE _____
CALC BY JRW DATE 1-20-07 CHK BY _____ DATE _____

	#	30 year Present Worth for Each	Total Present Worth
PRV			
Repair	6	$-5000 \left(\frac{1}{1} \right) (4\% 30) = -5000 (17.2920) = -86,460$	-86,460
Replace	6	$-25000 - 100 \left(\frac{1}{1} \right) (4\% 30) = -25000 - [100 (17.2920)] = -26,729$	-160,375
Telemetry			
Repair	1	$0 - 5000 \left(\frac{1}{1} \right) (4\% 30) = 0 - [5000 (17.2920)] = -86,460$	-86,460
Replace	1	$-90000 - [200 \left(\frac{1}{1} \right) (4\% 30)] = -90000 - [200 (17.2920)] = -93,458$	-93,458
Backup Power			
Gas/Diesel	1	$-25000 - [300 \left(\frac{1}{1} \right) (4\% 30)] = -25000 - [300 (17.2920)] = -30,198$	-30,198
Solar	1	$-350000 - [2000 \left(\frac{1}{1} \right) (4\% 30)] = -350000 - [2000 (17.2920)] = -384,584$	-384,584
Hydrants			
Do Nothing	67	$0 - [500 \left(\frac{1}{1} \right) (4\% 30)] = 0 - [500 (17.2920)] = -8,646$	-8,646
Replace	67	$-5000 - [25 \left(\frac{1}{1} \right) (4\% 30)] = -5000 - [25 (17.2920)] = -5,432$	-5,432
250,000 gal Tank			
Do Nothing	1	$0 - [200 \left(\frac{1}{1} \right) (4\% 30)] = 0 - [200 (17.2920)] = -3,458$	-3,458
Replace	1	$-50000 - [200 \left(\frac{1}{1} \right) (4\% 30)] = -50000 - [200 (17.2920)] = -53,458$	-53,458
40,000 gal Tank			
Do Nothing	1	$0 - [200 \left(\frac{1}{1} \right) (4\% 30)] = 0 - [200 (17.2920)] = -3,458$	-3,458
Replace	1	$-30000 - [200 \left(\frac{1}{1} \right) (4\% 30)] = -30000 - [200 (17.2920)] = -33,458$	-33,458
Connection line			
Do Nothing	1	$0 - 10 \left(\frac{1}{1} \right) (4\% 30) = 0 - [10 (17.2920)] = 0$	0
Install	1	$-25000 - [0 \left(\frac{1}{1} \right) (4\% 30)] = -25000 - [0 (17.2920)] = -25,000$	-25,000
Pump Stations			
Do Nothing	2	$0 - [500 \left(\frac{1}{1} \right) (4\% 30)] = 0 - [500 (17.2920)] = -8,646$	-8,646
Do Nothing	2	$5000 - [0 \left(\frac{1}{1} \right) (4\% 30)] = 5000 - [0 (17.2920)] = 5,000$	5,000

6

YARNELL WATER IMPROVEMENT ASSOCIATION

EXHIBIT 6

2008 FINANCIAL STATEMENTS

1:31 PM

11/19/08

Accrual Basis

YARNELL WATER IMPROVEMENT ASSN

Balance Sheet

As of November 19, 2008

	Nov 19, 08
ASSETS	
Current Assets	
Checking/Savings	
131 - Cash	
100 - Petty Cash	100.00
102 - NBA Ck 390100228	4,000.94
Total 131 - Cash	4,100.94
134 - Working Funds	
107 - Stockman's MM 2103001893	277.86
Total 134 - Working Funds	277.86
135 - Temp Cash Investments	
104 - Meridian Bank CD 3121191	4,010.00
Total 135 - Temp Cash Investments	4,010.00
Total Checking/Savings	8,388.80
Accounts Receivable	
141 - Accounts Receivable	
144 - Reserve for Bad Debt	-380.61
141 - Accounts Receivable - Other	4,999.67
Total 141 - Accounts Receivable	4,619.06
Total Accounts Receivable	4,619.06
Other Current Assets	
162 - Prepayments	
163 - Prepaid Vehicle Registration	166.04
Total 162 - Prepayments	166.04
Total Other Current Assets	166.04
Total Current Assets	13,173.90
Fixed Assets	
101 - Utility Plant in Service	
301 - Organization Costs	24,471.00
302 - Franchise Costs	34,884.00
303 - Land & Land Rights	23,732.00
304 - Structures & Improvements	59,612.92
307 - Wells & Springs	1,783.57
311 - Pumping Equipment	90,044.00
320 - Water Treatment Equipment	
320.2 - Solution Chemical Feeders	4,908.39
320.1 - Water Treatment Plants	72,507.18
Total 320 - Water Treatment Equipment	77,415.57
330 - Distrib Reservoirs & Standpipes	
330.1 - Storage Tanks	151,422.50
Total 330 - Distrib Reservoirs & Standpipes	151,422.50
331 - Transmission & Distr Mains	866,660.62
333 - Services	2,976.06
334 - Meters & Meter Installations	82,875.04
335 - Hydrants	63,179.57
339 - Other Plant & Misc Equipment	34,824.34
340 - Office Furniture and Equip	
340.1 - Computer & Software	3,138.68
340 - Office Furniture and Equip - Other	3,041.05
Total 340 - Office Furniture and Equip	6,179.73

1:31 PM

11/19/08

Accrual Basis

YARNELL WATER IMPROVEMENT ASSN

Balance Sheet

As of November 19, 2008

	Nov 19, 08
341 - Transportation Equipment	21,482.70
343 - Tools, Shop & Garage Equip	10,672.80
345 - Power Operated Equipment	400.00
347 - Miscellaneous Equipment	30,572.07
348 - Other Intangible Plant	101,115.73
101 - Utility Plant in Service - Other	684.48
Total 101 - Utility Plant in Service	1,684,988.70
108 - Accum Depreciation - Plant	-1,141,502.97
Total Fixed Assets	543,485.73
TOTAL ASSETS	556,659.63
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
231.4 - National bank of Az 9689	185.45
231.3 - Pitney Bowes Card Payable	3,605.44
Total Credit Cards	3,790.89
Other Current Liabilities	
232 - Current Portion - L/T Debt	41,805.24
236 - Accrued Taxes	
243 - Sales Tax Payable	1.56
238 - Payroll Tax Liabilities	
2384 - SUTA Payable	27.62
2383 - FUTA Payable	270.82
2382 - State W/H Payable	104.77
2381 - FICA/FWH Payable	1,133.44
Total 238 - Payroll Tax Liabilities	1,536.65
240 - Accrued Real Estate Tax	3,464.41
Total 236 - Accrued Taxes	5,002.62
233 - Refundable Meter Deposits	10,425.64
235 - Refundable Customer Deposits	4,029.58
237 - Accrued Interest Payable	13,583.44
241 - Misc Current & Accrued Liab	
241.6 - Workers Comp Payable	-52.67
Total 241 - Misc Current & Accrued Liab	-52.67
Total Other Current Liabilities	74,793.85
Total Current Liabilities	78,584.74
Long Term Liabilities	
224 - Long-Term Notes & bonds	
227 - N/P Ford Mtr- 06 Ford Serv Trk	11,207.23
225 - N/P GMAC 10216004	30,737.21
226 - GMAC Loan Payable	238,194.35
299 - Current Portion L/T Debt	-41,805.24
Total 224 - Long-Term Notes & bonds	238,333.55
Total Long Term Liabilities	238,333.55
Total Liabilities	316,918.29
Equity	
211 - Paid in Capital Excess of Par	594.00
325 - Unrestricted Net Assets	288,941.91
Net Income	-49,794.57
Total Equity	239,741.34
TOTAL LIABILITIES & EQUITY	556,659.63

1:28 PM

11/19/08

Accrual Basis

YARNELL WATER IMPROVEMENT ASSN**Profit & Loss**

January through December 2008

	Jan - Dec 08
Ordinary Income/Expense	
Income	
461 - Metered Water Revenues	
401 - Metered Customer Water Revenues	183,441.19
413 - Discounts & Allowances	-161.97
461.5 - Bad Debt Recovery	12.29
414 - AR RVS Adjustments	95.00
461 - Metered Water Revenues - Other	344.67
Total 461 - Metered Water Revenues	183,731.18
474 - Other Water Revenues	
405 - Turn On Fee/Un-Lock Fee	1,480.00
402 - Establishment Fees	1,840.00
474 - Other Water Revenues - Other	819.65
Total 474 - Other Water Revenues	4,139.65
Total Income	187,870.83
Expense	
66900 - Reconciliation Discrepancies	129.56
618 - Chemicals	-51.48
615 - Purchased Power	8,932.37
650 - Transportation Expense	
642 - Vehicle Fuel	2,661.08
650 - Transportation Expense - Other	453.22
Total 650 - Transportation Expense	3,114.30
408 - Taxes Other Than Income	
408.11 - Property Taxes	8,656.50
638 - Sales Tax Expense	65.49
Total 408 - Taxes Other Than Income	8,721.99
601 - Salaries & Wages Expense	
601.1 - Salaries & Wages	
601.2 - Employee Insurance Allowance	2,298.62
601.1 - Salaries & Wages - Other	97,990.35
Total 601.1 - Salaries & Wages	100,288.97
601.4 - Payroll Tax Expense	
6751 - Employer FICA	7,684.31
6752 - FUTA Expense	271.46
6753 - SUTA Expense	597.37
Total 601.4 - Payroll Tax Expense	8,553.14
Total 601 - Salaries & Wages Expense	108,842.11
403 - Depreciation Expense	30,011.60
6120 - 612 Bank Service Charges	10.00
621 - Office Supplies & Expense	
655 - Computer Repairs & Maintenance	108.50
639 - Utilities	
758 - Propane	2,594.32
760 - Telephone	4,283.84
Total 639 - Utilities	6,878.16
684 - Dues and Subscriptions	684.87
683 - Printing and Reproduction	756.40
782 - Postage and Delivery	2,759.80
621 - Office Supplies & Expense - Other	3,802.28
Total 621 - Office Supplies & Expense	14,990.01

1:28 PM
11/19/08
Accrual Basis

YARNELL WATER IMPROVEMENT ASSN

Profit & Loss

January through December 2008

	Jan - Dec 08
675 · Miscellaneous	
675.1 · Bad Debt Expense	342.62
624 · Employee Train, Seminars &	1,325.34
694 · Licenses and Permits	803.25
675 · Miscellaneous - Other	26.67
Total 675 · Miscellaneous	2,497.88
641 · Rent	
695 · Equipment Rental	1,593.16
Total 641 · Rent	1,593.16
657 · Insurance-General Liability	
686 · Workers Comp	5,304.53
657 · Insurance-General Liability - Other	6,536.90
Total 657 · Insurance-General Liability	11,841.43
630 · Outside Services	
762 · Trash	228.00
627 · Professional Fees	
791 · Accounting	2,324.75
693 · Engineering	12,920.00
794 · Consulting fees	540.00
627 · Professional Fees - Other	0.00
Total 627 · Professional Fees	15,784.75
630.1 · Day Labor	240.00
712 · Bank Service Charges	156.84
630 · Outside Services - Other	5,315.00
Total 630 · Outside Services	21,724.59
620 · Repairs & Maintenance	
645 · Operations	
640 · Backhoe Fuel	709.36
644 · Maintenance Supplies	8,333.00
646 · Small Tools	1,491.76
Total 645 · Operations	10,534.12
652 · Equipment Repairs & Maintenance	845.02
620 · Repairs & Maintenance - Other	252.78
Total 620 · Repairs & Maintenance	11,631.92
635 · Water Test	
635.1 · Samples	2,847.85
Total 635 · Water Test	2,847.85
Total Expense	226,837.29
Net Ordinary Income	-38,966.46
Other Income/Expense	
Other Income	
419 · Interest Income	508.63
421 · Misc Non Utility Income	
703 · Other Income	954.68
421.1 · Gain/Loss Sale of Assets	229.80
421 · Misc Non Utility Income - Other	25.00
Total 421 · Misc Non Utility Income	1,209.48
Total Other Income	1,718.11

1:28 PM

11/19/08

Accrual Basis

YARNELL WATER IMPROVEMENT ASSN

Profit & Loss

January through December 2008

	Jan - Dec 08
Other Expense	
427 - Interest Expense	
427.1 - Finance Charge	57.19
427.2 - Loan Interest	11,288.60
427 - Interest Expense - Other	1,200.43
Total 427 - Interest Expense	12,546.22
Total Other Expense	12,546.22
Net Other Income	-10,828.11
Net Income	-49,794.57

7

YARNELL WATER IMPROVEMENT ASSOCIATION

EXHIBIT 7

**OPERATING BUDGET AND CASH FLOW
FOR 2009 AND 2010**



Walter P. Blodgett, CPA CFP®

"Helping You Create, Accumulate and Preserve Your Financial Well Being"

To Yarnell Water Improvement Association

We have compiled the accompanying Operating Budget, and Projected Cash Flow of Yarnell Water Improvement Association for the Periods ending December 31, 2009, December 31, 2010, and December 31, 2011, in accordance with attestation standards established by the American Institute of Certified Public Accountants. This financial projection is presented on the basis of accounting prescribed by the Arizona Corporation Commission for water utility companies, that is a comprehensive basis of accounting other than generally accepted accounting principles.. The Operating Budget, and Projected Cash Flow was prepared for the Rural Development Department of the U.S. Department of Agriculture for the purpose acquiring a loan for improvements to operating facilities and refinancing current GMAC debt.

A compilation is limited to presenting in the form of a projection information that is the representation of management and does not include evaluation of the support for the assumptions underlying the projection. We have not examined the projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, even if the financing in the amounts described along with other assumptions in Note A – Summary of Assumptions are attained there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Management has elected to omit the summary of significant accounting policies required by the guidelines for presentation of a projection established by the American Institute of Certified Public Accountants. If the omitted disclosures were included in the projection, they might influence the user's conclusions about the Company's results of operations and cash flows of the projection periods. Accordingly, this projection is not designed for those who are not informed about such matters.

The accompanying projection and this report are intended solely for the information and use of Yarnell Water Improvement Association and the U.S. Department of Agriculture and are not intended to be and should not be used by anyone other than these specified parties. We are not independent with respect to Yarnell Water Improvement Association.

Blodgett CPA, LLC
Wickenburg, Arizona
April 27, 2009

Position 3
OPERATING BUDGET

Schedule 1

Name YARNELL WATER IMPROVEMENT ASSOCIATION		Address 22609 LOOKA WAY		YARNELL, I. <input checked="" type="checkbox"/>	
Applicant Fiscal Year From 01-09 To 12-09		County YAVAPAI		State (Including ZIP Code) ARIZONA 85362	

	20	20	20 09	20 10	First Full Year
	(1)	(2)	(3)	(4)	(5)
OPERATING INCOME					
1. METERED WATER REVENUES			\$238,893.00	\$328,319.00	\$331,603.00
2. OTHER WATER REVENUES			\$5,143.00	\$5,610.00	\$5,610.00
3.					
4.					
5. Miscellaneous					
6. Less: Allowances and Deductions	()	()	()	()	()
7. Total Operating Income (Add Lines 1 through 6)	\$0.00	\$0.00	\$244,036.00	\$333,929.00	\$337,213.00
OPERATING EXPENSES					
8. WATER OPERATIONS EXPENS			\$37,062.00	\$27,199.00	\$28,014.00
9. OUTSIDE SERVICES			\$9,985.00	\$13,285.00	\$13,685.00
10. INSURANCE EXPENSE			\$12,802.00	\$13,186.00	\$13,582.00
11. TAXES OTHER THAN INCOME			\$11,069.00	\$22,732.00	\$23,414.00
12. SALARY & WAGE EXPENSE			\$127,112.00	\$130,925.00	\$134,853.00
13. OFFICE EXPENSE			\$18,140.00	\$18,684.00	\$19,245.00
14. MISCELLANEOUS			\$2,953.00	\$3,042.00	\$3,134.00
15. Interest (RD)			\$18,667.00	\$29,224.00	\$28,816.00
16. Depreciation			\$36,014.00	\$76,420.00	\$76,420.00
17. Total Operating Expense (Add lines 8 through 16)	\$0.00	\$0.00	\$273,804.00	\$334,697.00	\$341,163.00
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	\$0.00	\$0.00	(\$29,768.00)	(\$768.00)	(\$3,950.00)
NONOPERATING INCOME					
19.					
20.					
21. Total Nonoperating Income (Add Lines 19 and 20)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
22. NET INCOME (LOSS) (Add Lines 18 and 21) (Transfer to Line A Schedule 2)	\$0.00	\$0.00	(\$29,768.00)	(\$768.00)	(\$3,950.00)

Budget and Projected Cash Flow Approved by Governing Body

Attest: _____ Secretary _____ Date _____

Appropriate Official _____ Date _____

PROJECTED CASH FLOW

	20	20	20 09	20 10	First Full Year
A. Line 22 from Schedule 1 Income (Loss)	\$0	\$0	(\$29,768)	(\$768)	(\$3,950)
Add					
B. Items in Operations not Requiring Cash:					
1. Depreciation (Line 16, Schedule 1)	\$0	\$0	\$36,014	\$76,420	\$76,420
2. Others:					
C. Cash Provided from:					
1. Proceeds from RD loan/grant			\$1,300,000		
2. Proceeds from others					
3. Increase (Decrease) in Accounts Payable, Accruals and other Current Liabilities					
4. Decrease (Increase) in Accounts Receivable, inventories and Other Current Assets (Exclude Cash)					
5. Other: SEE ATTACHED SCHEDULE 1			(\$7,130)	\$8,442	(\$1,349)
6.					
D. Total all A, B and C Items	\$0	\$0	\$1,299,116	\$84,094	\$71,121
E. Less: Cash Expended for:					
1. All Construction, Equipment and New Capital Items (Loan and grant funds)			\$1,010,138		
2. Replacement and Additions to Existing Property, Plant and Equipment			\$3,451	\$3,556	\$4,663
3. Principal Payment RD Loan					
4. Principal Payment Other Loans			\$273,109	\$4,615	\$2,063
5. Other:					
6. Total E 1 through 5	\$0	\$0	\$1,286,698	\$8,171	\$6,726
Add					
F. Beginning Cash Balances			\$811	\$13,229	\$89,152
G. Ending Cash Balances (Total of D minus E 6 plus F)	\$0	\$0	\$13,229	\$89,152	\$2,153,547
Item G Cash Balances Composed of:					
Construction Account					
Revenue Account					
Debt Payment Account					
O&M Account		\$811	\$11,333	\$83,464	\$144,067
Reserve Account			\$1,896	\$5,688	\$9,480
Funded Depreciation Account					
Others:					
Total - Agrees with Item G	\$0	\$811	\$13,229	\$89,152	\$153,547

Note A: Summary of Sensitive and General Assumptions

Sensitive Assumptions

Loan acquired from USDA Jan 1, 2010

Loan terms

Rate	Years	Pmt freq			
3.75%		40 Monthly	Interest only 1st 2 yrs at	\$	2,397 per mnth
			payments thereafter	\$	3,161 per mnth

Loan Amount:

Project Costs		\$	1,010,138
Assumed USDA Grant	45%		<u>533,000</u>
		\$	477,138
GMAC Note	5%		238,194
GMAC Note	5%		30,737
GMAC Accrued Int. Months	18		<u>20,931</u>

Loan Amount \$ 767,000

Grant funds assumed to be available to payoff GMAC loans and fund construction through August, 2009.

Loan proceeds are to be deposited into separate account as funds are needed to pay construction draws.
Assume even \$153,400 loan deposit beginning August 31, 2009.

If loan approved, would require ACC to approve per year Revenue increase beginning Jan 2010 to service

Loan payments Interest only 1st 2 years	\$	2,396.88	\$	28,763
Reserve fund monthly contribution:	\$	316.00	\$	<u>3,792</u>
			\$	<u>32,555</u>

Loan payments after 2 years P & I	\$	3,161.00	\$	37,932
Reserve fund monthly contribution:	\$	316.00	\$	<u>3,792</u>
			\$	<u>41,724</u>
			\$	<u>9,169</u>

3rd year increase

Fixed Asset 2009 expenditures placed in service Jan 2010 per engineer study \$ 1,010,138

Annual Operating & Maintenance savings per engineer study:
\$ 10,975

Average depreciation rate allowed by ACC 4%

Annual depreciation on new infrastructure \$ 40,406

Interest Income from investment of loan proceeds Months -
Rate 2%

General Assumptions

Expenditure Inflation rate	Customer usage annual increase
3.00%	1.00%

Commission rate increase effective Feb 2009
19.61%

Other Assumptions

Additional rate increase beginning January, 2010 to required for general operations. \$ 33,000.00

Note A: Summary of Sensitive and General Assumptions

New computer system & peripherals 2011 \$ 1,000

Estimate Plant Equipment & Tools Replace per year based on 2008 adjusted for inflation

Estimate 100% increase in property tax resulting from new property acquisition beginning 2010.

\$12,920 Preliminary Engineering in 2008 will not repeat

Additional 2009 accounting fees for incremental fixed asset accounting, ACC rate increase
request and loan acquisition \$ 3,000

Additional annual accounting fees for loan and quarterly compilations per USDA loan requirements
\$ 6,000

Yarnell Water Improvement Association
Schedule 1 - Supplement to Projected Cash Flow

		COLA RATES		
		3%	3%	3%
		2009	2010	2011
Line C(5) - Cash Provided from Other:				
141 . Accounts Receivable		-4,000	0	-1,000
141 . Accounts Receivable:144 . Reserve for Bad Debt		100	0	100
162 . Prepayments:149 . Employee Advance		0	0	0
162 . Prepayments:163 . Prepaid Vehicle Registration		-9	-9	-9
231 . Accounts Payable		-5	-5	-5
231.6 . Staples		-6	-6	-6
231.5 . National Bank of Az 2857		-18	-18	-18
231.4 . National bank of Az 9689		-1	-1	-1
231.3 . Pitney Bowes Card Payable		-3,789	0	0
231.2 . Cr Cd HSBC Business Solutions		-91	0	0
236 . Accrued Taxes:243 . Sales Tax Payable		0	0	0
236 . Accrued Taxes:238 . Payroll Tax Liabilities:2384 . SUTA Payable		0	0	0
236 . Accrued Taxes:238 . Payroll Tax Liabilities:2383 . FUTA Payable		0	0	0
236 . Accrued Taxes:238 . Payroll Tax Liabilities:2382 . State W/H Payable		0	0	0
236 . Accrued Taxes:238 . Payroll Tax Liabilities:2381 . FICA/FWH Payable		-8	-8	-8
236 . Accrued Taxes:240 . Accrued Real Estate Tax		-160	-5,831	-340
233 . Refundable Meter Deposits		-21	-21	-21
235 . Refundable Customer Deposits		-41	-41	-41
237 . Accrued Interest Payable		972	14,382	0
241 . Misc Current & Accrued Liab:241.6 . Workers Comp Payable		-53		
Line C(5) - Cash Provided from Other:		-7,130	8,442	-1,349

See Accountant's Report